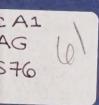




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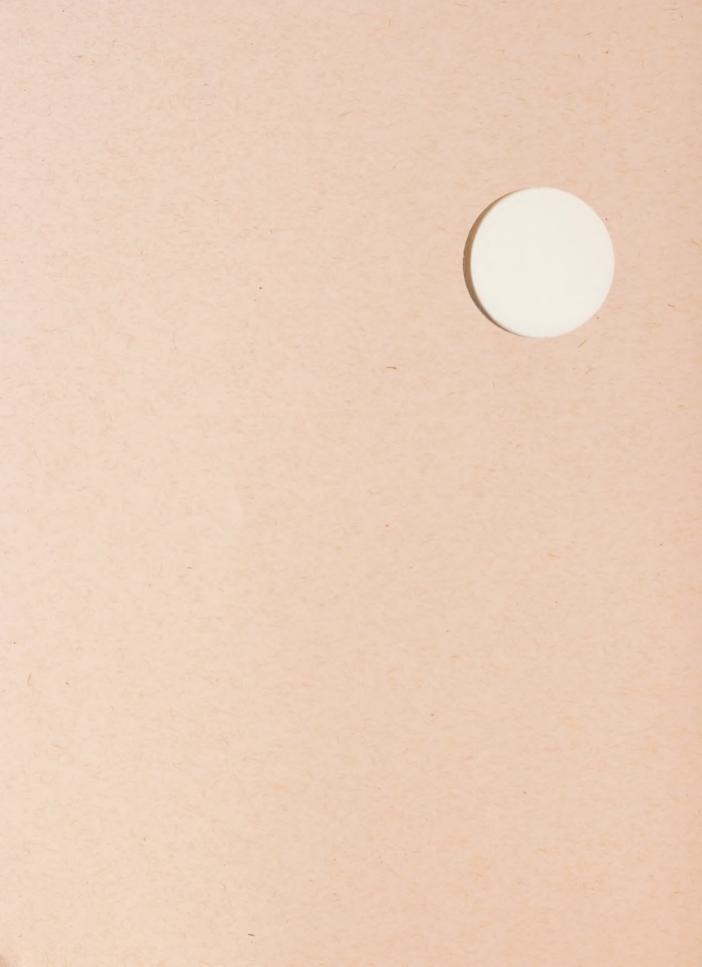


A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

A Message from the Auditor General of Canada Main Points Appendix





# 2007



# A Status Report of the Auditor General of Canada to the House of Commons

# **FEBRUARY**

A Message from the Auditor General of Canada Main Points—Chapters 1 to 7 Appendix The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2007 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

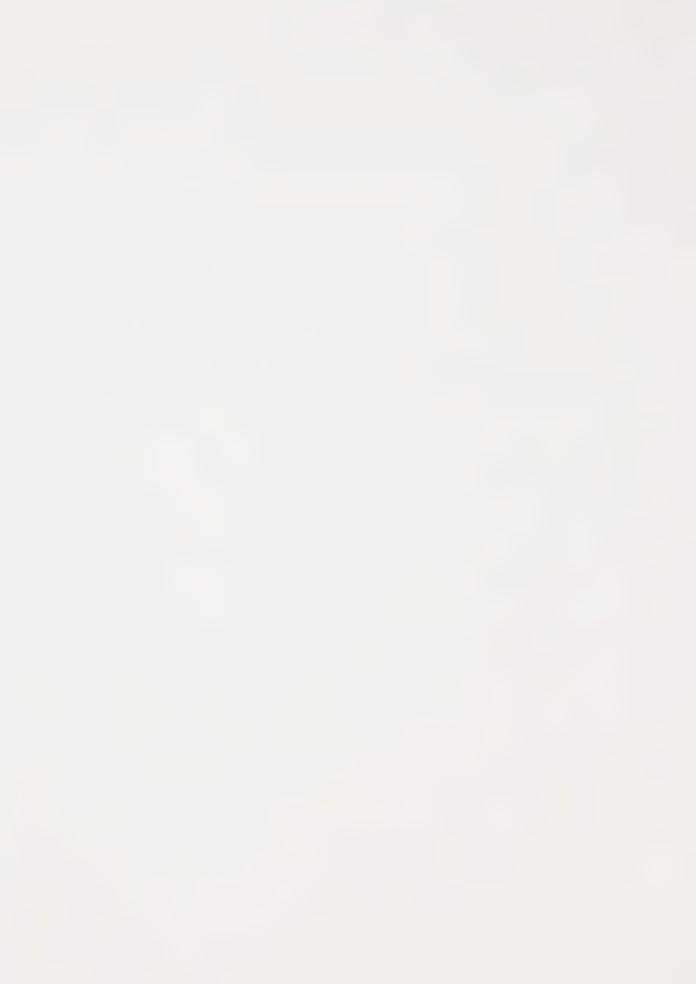
Sheila Fraces

Sheila Fraser, FCA Auditor General of Canada



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A Message from the Auditor General of Canada— Status Report 2007

# A Message from the Auditor General of Canada— Status Report 2007



Sheila Fraser, FCA Auditor General of Canada

The regular reports we present to Parliament on our performance audits provide information about how well the government is performing against its own yardstick—its own objectives, legal requirements, and other relevant standards. We report what is working well and what needs improvement.

We use the same yardstick to assess departments' performance when we return two or three years later to look at whether they have improved. Have they narrowed the gap between the relevant operational standards and their actual performance? And is this progress satisfactory in light of how much time has elapsed between the original audit and our follow-up work? In our yearly Status Report to Parliament, we provide this assessment of what the government has done to address our recommendations from a selection of previously reported performance audits.

We are pleased to note satisfactory progress in five of the seven chapters in this year's Status Report. Our follow-up audit of the government's advertising activities in particular found significant progress in the selection of advertising agencies and the Agency of Record (the private sector supplier that purchases media time and space for the government's advertising). Given the serious weaknesses that we identified in our original audit of government advertising activities, this year's findings are good news.

Progress was unsatisfactory on two fronts: the management of the Social Insurance Number and the management of the Coast Guard's fleet and marine navigational services. Each area involves long-standing problems that we are now reporting for the fourth time since 1998 in one case and the third time since 2000 in the other.

### Satisfactory progress

#### **Advertising and Public Opinion Research**

The government uses advertising to inform Canadians not only about government services, programs, initiatives, and policies but also about their rights and responsibilities. It is also an important tool for informing the public about dangers or risks to the environment or to public health and safety, for example. Public opinion research plays an important role in developing policies and programs that affect the public. It is a critical tool for gathering information on the public's opinions, perceptions, and reactions or views.

We looked at a sample of advertising campaigns and public opinion research projects to see whether the departments administering them were exercising adequate management and control and whether changes made in response to our 2003 audit recommendations had resolved our concerns. We also looked at the role played by PWGSC.

Our follow-up audit found that PWGSC has made satisfactory progress toward ensuring that it awards advertising and public opinion research contracts in a fair and transparent manner. It used a competitive process to establish standing offers and supply-arrangement lists that represent a pool of qualified firms who can provide advertising and public opinion research services. We found that the process for choosing the Agency of Record was fair and transparent.

We also found that the audited departments properly administered their advertising campaigns, authorized their placement in the media, and evaluated and reported the results.

In public opinion research, however, departments did not always document the need for planned research and notify PWGSC, before they contacted a potential supplier, that they intended to conduct research.

#### International Taxation—Canada Revenue Agency

The globalization of the workforce and growth in international investment have significant impacts on the taxes owed to Canada, both by Canadian residents earning income and doing business abroac and by non-residents earning income in Canada. The amounts involved are significant—by the Agency's estimate, transactions conducted by Canadian corporations with related parties in foreign jurisdictions totalled \$1.5 trillion in 2005. Non-residents paid over \$4.9 billion last year in taxes on income earned in Canada.

We found that the Agency has made satisfactory progress in addressing the recommendations we made in our 2001 and 2002 audits of non-resident taxation and the taxation of international transactions by Canadians. It is better able to identify potential non-compliance with the tax rules for international transactions. It improved most of its risk assessment tools, and it introduced initiatives to detect aggressive international tax planning schemes

The Agency has also given tax services offices clearer guidance on non-resident tax administration policies and has issued new manuals and communication bulletins to auditors and taxpayers. It has yet to deal with the low level of expertise in international tax audit at some of the tax services offices that handle the highest-risk files. This lack of expertise could result in inconsistencies across the country in the audit approach to and coverage of international transactions, and a loss of tax revenue. Problems also remain in the matching of non-resident tax data, hampering compliance efforts.

#### Passport Services—Passport Canada

In 2005, we reported that the Passport Office (now Passport Canada) was struggling to meet higher expectations for security and growing demands for service. Since then, it has dealt with an unprecedented demand, issuing over three million passports in 2005–06.

In the relatively short time since our 2005 audit, Passport Canada has made satisfactory progress in addressing our recommendations. Examiners now have appropriate tools and training to determine whether identity documents provided with passport applications are authentic. Almost all key employees with access to critical assets have been cleared to the "secret" level. Missions abroad now print only emergency travel documents and temporary passports with added security features. Related training has been developed for consular staff.

Passport Canada has also significantly enlarged its "watch list" containing names of people who are on parole or incarcerated—information it has used to refuse applications or to investigate them further.

Weaknesses remain, however, in the critical areas of security and verification of identity. Controls over the system are still weak, so unauthorized persons could trigger the passport issuance process. Most important, to preserve the integrity of passports it is critical that the Agency establish electronic links to partner organizations' databases on vital statistics and criminality. To do so, it will need the cooperation of other departments and agencies in both the federal and the provincial or territorial governments.

It is worth noting that, while its recently established Project Management Bureau has brought appropriate discipline to the way improvement projects are managed, Passport Canada is attempting to carry out simultaneously several substantial projects that will significantly reform the way it does business. It will need the continued support of Foreign Affairs and International Trade Canada, the Treasury Board Secretariat, and its partner government departments to reach its goals.

#### Management of Leading-Edge Research—National Research Council Canada

The National Research Council (NRC) is the federal government's largest research organization. Its science and technology activities support the government in areas such as health and safety, protection of the environment, communications, and economic development. The NRC also supports efforts by Canadian small and medium-sized enterprises to improve their technological competitiveness and innovation.

Since our audit in 2004, the NRC has made satisfactory progress with the steps it has taken to address our recommendations on corporate governance, research management, and management of human resources. The appointed Council that governs its operations has strengthened its role and, since June 2005, has been involved in major policy and budgetary decisions. It also adopted a new committee structure. We are concerned, however, that the number of continuing vacancies on the Council hampers its ability to govern effectively.

The NRC's research institutes have taken steps to improve the way they manage research projects. We observed the widespread use of clear criteria to determine priorities and guide project selection. We also noted several good practices used in selecting and reviewing research projects. The NRC also implemented several human resource management initiatives.

Action on some of our recommendations was delayed in order to put new management systems and processes in place to implement the NRC's new corporate strategy.

#### The Conservation of Federal Built Heritage

Federal built heritage consists mainly of buildings, battlegrounds, forts, archaeological sites, and canals of historic significance. When important parts of Canada's built heritage are lost, future generations lose their access to key moments of Canadian history.

We found that Parks Canada has made satisfactory progress in responding to our 2003 audit recommendations on the need for better protection of our built heritage. The Agency has proposed a policy to strengthen the legal protection of built heritage and has made progress in developing key management documents for national historic sites. The government gave it additional capital funds for infrastructure, and the Agency has allocated part of that funding to the conservation of cultural resources at the national historic sites in its custody.

In other departments that have custody of built heritage, however, the news is not good. Unlike Parks Canada, whose custodial responsibilities are established in the *Parks Canada Act* as well as in the Treasury Board Heritage Buildings Policy, other departments manage only under the policy. The policy applies to heritage buildings only, and so national historic sites and other heritage elements such as archaeological sites, canals, and cultural landscapes are not getting the level of protection they need.

Furthermore, the policy deals with the designation of heritage buildings and their conservation as two separate processes, with no provision for planning and managing them together. As a result, while the number of designated heritage buildings is growing, there is no parallel growth in the funding of custodial departments and agencies for heritage conservation.

### **Unsatisfactory progress**

# The Management of the Social Insurance Number—Human Resources and Social Development Canada

Social Insurance Numbers (SINs) are issued and administered under the *Employment Insurance Act*, largely by Service Canada within Human Resources and Social Development Canada. How federal departments may collect and use the SIN is governed by legislation and Treasury Board policies.

While the government has made significant improvements in the management of the SIN since our last audit, we consider its progress to be unsatisfactory because of two serious and long-standing problems not yet resolved—uncertainty about the quality of information in the Social Insurance Register, and lack of clarity in the policies on how federal departments may use the SIN.

In 2002, we reported that we were concerned about the quality of information in the Social Insurance Register—the database containing the basic personal information provided by individuals who apply for a SIN. In our follow-up, we found that while the Department has made efforts to improve data quality, it has not established goals for quality and does not measure it systematically. Therefore, it cannot be sure of the quality of information it retains in the Register.

We also found that the continuing lack of clarity in the policies on how federal organizations may use the SIN has led to inconsistent interpretation of the rules. This makes it difficult for departments to be sure they use the SIN appropriately. Service Canada has made satisfactory progress in many areas to strengthen the management of the SIN. It developed the SIN code of practice, redesigned the SIN issuance process, changed its proof-of-identity standards, and improved the way it identifies and investigates SIN-related fraud.

Strong management of the Social Insurance Number—including clear policy guidance on its use in the federal government—is more important than ever, given the growing global incidence of identity theft, fraud, and security risks.

# Managing the Coast Guard Fleet and Marine Navigational Services—Fisheries and Oceans Canada

In 2000 and 2002, we reported that Fisheries and Oceans Canada had not managed the Canadian Coast Guard fleet and marine navigational services cost-effectively. The Coast Guard has since been made a special operating agency within the Department, headed by a Commissioner, to give it more autonomy and flexibility.

Canadian mariners, like others around the world, are increasing their reliance on electronic navigation rather than traditional aids such as buoys and light stations. As the main Canadian provider of marine navigational services, the Coast Guard must make the same transition.

Our follow-up audit found that the Coast Guard has not developed the national policies and national service standards or the integrated planning, management, and performance information systems that are needed to transform itself into a strong national institution. It still operates largely as five regional coast guards, each with its own way of doing things.

The Coast Guard fleet is aging, and it is costly to maintain and operate. Based on the current schedule for replacing vessels, many will not be replaced until long past their estimated useful lives. The growing unreliability of the vessels is hampering the Coast Guard's ability to support the programs of Fisheries and Oceans Canada and other client departments. For example, key annual fish stock surveys have had to be cancelled or postponed when vessels were not available.

The Coast Guard has a history of failing to complete planned initiatives. Implementation of the special operating agency—a key government initiative designed to change the way the Coast Guard operates—is behind schedule. And as the Coast Guard has modernized its aids to navigation with new technologies, it has been unable to shed old facilities it no longer needs.

Our chapter on the Coast Guard identifies three fundamental reasons for that organization's continuing lack of progress on the issues we are again raising. First, its "can do" philosophy leads it to accept assigned duties even when, realistically, there is no way it can deliver. Second, the organization does not prioritize—after our 2000 audit, the Coast Guard addressed all of our recommendations at once, despite the large number of issues involved and its limited management capacity. As a result, the initiatives stalled at various stages of completion. And third, there is a lack of organizational and individual accountability in the Coast Guard for the commitments it makes.

#### Conclusion

Audit, by nature, focuses on areas in need of improvement. Sometimes people ask if anything changes as a result of our reports. Does government take action? This year, I am pleased to be able to answer that question affirmatively in the majority of the areas we revisited in this report.

Where progress was satisfactory, what were the success factors that made the difference? Mostly, they were the setting of priorities, strong commitment from senior management to achieving them, clear action plans, and support in the form of adequate resources to achieve the goals.

Passport Canada, for example, was able to achieve satisfactory progress in a relatively short time under the strong leadership and commitment of its senior management. It translated plans into action and was open to our recommendations and the suggestions of both the Public Accounts Committee and Passport Canada staff.

Parks Canada was able to improve its management of built heritage also because of senior management's commitment, as demonstrated by its continuous efforts to strengthen the conservation regime.

Public Works and Government Services Canada, National Research Council Canada, and the Canada Revenue Agency also deserve recognition for the satisfactory progress they have achieved in the specific areas we looked at.

Several times in the past, we have highlighted the absence of strong leadership as a root cause of slow progress in fixing problems that our audits have found. This report clearly shows the difference made when strong commitment is present at the top of the organization.

Main Points—Chapters 1 to 7





# Advertising and Public Opinion Research

# Chapter 1

# **Main Points**

#### What we examined

When we last reported on advertising and public opinion research in 2003, we assessed the extent to which the government had ensured effective control over its spending on these activities and whether it was measuring their results and reporting them to Parliament.

This time, we audited advertising campaigns and public opinion research projects to see whether the departments administering them were exercising adequate management and control and whether changes made in response to our 2003 recommendations were effective. We also looked at the roles played by the Privy Council Office, the Treasury Board Secretariat, and Public Works and Government Services Canada (PWGSC). We did not follow up on our 2003 audit of sponsorship activities; nor did we update our work on the quality of public opinion research, which we reported in 2005.

### Why it's important

The government uses advertising to inform the Canadian public not only about government services, programs, initiatives, and policies but also about their rights and responsibilities. It is also an important tool for informing the public about dangers or risks to the environment or public health and safety, for example. In the 2004–05 fiscal year, the government paid \$49.5 million to agencies for advertising and media placements.

Public opinion research plays an important role in developing policies and programs that affect the public. It is a critical tool for gathering information on the public's opinions, perceptions, and reactions or views. In the 2004–05 fiscal year, the government spent \$29 million on public opinion research.

#### What we found

- PWGSC has made satisfactory progress in ensuring that it awards contracts for advertising and public opinion research through a fair and transparent process, in accordance with the Treasury Board's Contracting Policy.
- Departments have made satisfactory progress in ensuring that they plan for advertising activities and manage suppliers in accordance with the Communications Policy of the Government of Canada.

- · The government has made satisfactory progress in its control over the expenditure of public funds on advertising and public opinion research activities.
- · The results of advertising and public opinion research have been measured and reported in accordance with the requirements established by the Communications Policy of the Government of Canada.
- Some departments are still not complying with all requirements that apply to public opinion research. For example, some have contacted a research firm before informing PWGSC that they intend to carry out public opinion research activities.

The government has responded. The government has agreed with response follows the recommendation in the chapter.

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# The Conservation of Federal Built Heritage

# Chapter 2

# **Main Points**

#### What we examined

The built heritage includes the sites, structures, and monuments that are recognized for their historic significance. Federal built heritage consists mainly of heritage buildings and national historic sites. These can include, for example, buildings, battlegrounds, forts, archaeological sites, canals, and historic districts.

We examined progress made by the Parks Canada Agency in addressing recommendations from our 2003 audit, when we reported that built heritage was at risk. We recommended that the Agency continue its efforts to strengthen the legal framework for protecting built heritage and implement its management framework for national historic sites as quickly as possible.

In this follow-up audit we broadened our examination to include not only Parks Canada Agency but also National Defence and Public Works and Government Services Canada. Together, the three organizations have custody of about 75 percent of national historic sites and heritage buildings owned by the federal government. We examined the specific conservation actions they have taken since our 2003 audit in a sample of 11 national historic sites and 8 classified federal heritage buildings located in six provinces.

### Why it's important

Federal built heritage includes such sites as the Cape Spear Lighthouse in St. John's, La Citadelle in Québec City, Fort Henry in Kingston, Cave and Basin in Banff, and the Admiral's Residence on the Esquimalt Naval Base on Vancouver Island. These places recall the lives and history of the men and women who built this country, and they foster awareness of how Canadian society evolved. They help us to better understand the present and prepare for the future. They contribute in important ways to Canadians' sense of belonging to their community. When important parts of Canada's built heritage are lost, future generations of Canadians are deprived of access to key moments of their shared history.

#### What we found

- Parks Canada Agency has made satisfactory progress in addressing our 2003 recommendations. However, conservation of heritage buildings and national historic sites that are in the custody of other federal organizations is at risk because of gaps in the Treasury Board Heritage Buildings Policy.
- · Parks Canada Agency has developed a policy proposal to strengthen the legal framework for protecting federal built heritage. It has made progress in developing key documents for managing national historic sites. However, the Agency is behind in its schedule for completing its management plans for national historic sites. It has also taken steps to preserve the sites and structures that we reported to be in poor condition in 2003. The Agency has received additional capital funding to reinvest in its infrastructure, and has allocated part of that funding to the conservation of cultural resources at the national
- The Treasury Board Heritage Buildings Policy offers limited protection to the built heritage in the custody of departments and agencies other than Parks Canada Agency. The Policy applies to heritage buildings only, not to national historic sites or other heritage landscapes. The Treasury Board Policy has no requirements for reporting on heritage conservation. As a result, little information is available on how well custodial departments are conserving the built heritage in their custody.
- The Policy, as it applies to custodial departments other than Parks Canada Agency, does not connect the designation of heritage buildings with their conservation and does not provide for a process to do so. Designation and conservation are separate functions. As a result, while there are a growing number of designated heritage financial capacity of custodial departments and agencies for conservation. These gaps in the Policy are obstacles to informed decision-making and priority setting for built heritage conservation.

The departments and agencies have responded. The departments

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# Management of Leading-Edge Research

# National Research Council Canada

# Chapter 3

# **Main Points**

#### What we examined

The National Research Council Canada (NRC) is the federal government's most comprehensive scientific and industrial research organization. It reports to Parliament through the Minister of Industry and is governed by a Council of 22 federal appointees, including the President.

We examined the progress made by the NRC in addressing the recommendations from our 2004 audit, when we reported problems related to the NRC's corporate governance, mechanisms for setting strategic direction, management of research projects and human resources, and performance measurement and reporting.

#### Why it's important

Through its science and technology activities in areas such as aerospace, biotechnology, and information and communication technologies, the National Research Council makes an important contribution to the fulfillment of the government's responsibilities in areas such as health and safety, protection of the environment, communications, and economic development. The NRC also supports the efforts of Canadian small- and medium-sized enterprises to improve their technological competitiveness and innovative capability.

The NRC employs about 4,000 scientists and support staff in 18 research institutes and 2 technology centres across Canada. Its annual spending is about \$800 million. It is essential that the NRC be able to recruit and retain the best scientists and researchers and manage its research activities strategically to ensure that its work remains relevant for Canada's future research needs in science and technology.

#### What we found

 The National Research Council has made satisfactory progress overall since 2004 in responding to our recommendations. It has addressed the recommendations in the area of corporate governance, corporate strategic direction, and human resources management. However, progress is unsatisfactory in the documenting of key decisions at the institute level and in performance measurement and reporting.

- The NRC's Council has approved a new role for itself, one that is better aligned with the NRC's mandate under the National Research Council Act. Nevertheless, some members said their role was still not clear to them. The Council has begun to exercise its revised role by approving or recommending for approval several key policy and budgetary proposals since June 2005. It has also established two new standing committees—the Audit, Evaluation and Risk Management Committee and the Human Resources Committee. However, at the time of our audit, about half of the positions on the Council were vacant, despite the NRC's efforts to have the government appoint additional Council members. The number of vacancies hampers the ability of the Council and its standing committees to function effectively.
- The NRC has put in place new management systems and processes to implement a new corporate strategy, the NRC Strategy, released in May 2006. Development of its first corporate business plan, currently planned by March 2007, awaits the completion of critical milestones
- The NRC follows several good practices in selecting and monitoring research projects, but essential management information on projects is not always easily or uniformly retrievable. Although most institutes have priorities for selecting, reviewing, and terminating research projects, documentation such as rating sheets or rankings is often unavailable or incomplete. Peer review and outside input are
- While the NRC has created a plan and established key positions for human resources management, it has not set strategic priorities for human resources management and linked them to key functions such as recruitment, staffing, and succession planning. This is a task scheduled for completion as part of implementing the NRC Strategy.
- The NRC has not improved its performance reports to Parliament.

The National Research Council Canada has responded. The National Research Council Canada has accepted all of the Auditor

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# Managing the Coast Guard Fleet and Marine Navigational Services Fisheries and Oceans Canada

# Chapter 4

# **Main Points**

#### What we examined

We examined progress made in addressing our recommendations from audits in 2000 and 2002, when we reported that Fisheries and Oceans Canada had not managed the Canadian Coast Guard fleet and marine navigational services cost-effectively. Many management problems we found in those audits were similar to our observations in a 1983 audit of Canadian Coast Guard operations. The Coast Guard became a special operating agency within Fisheries and Oceans Canada in 2005. This change is intended to affirm the Coast Guard as a national institution.

Since our 2002 audit, the Coast Guard has played an increasing role in supporting maritime security. In our follow-up audit, we looked at this emerging role and its implications for managing the fleet and marine navigational services.

### Why it's important

The safe and efficient passage of vessels through Canadian waters depends on reliable and sophisticated marine navigation systems. Like others around the world, Canadian mariners are increasing their reliance on electronic navigation rather than traditional physical infrastructure such as buoys and light stations. As the main Canadian provider of marine navigational services, the Coast Guard must make the same transition.

The Coast Guard also provides icebreaking and search and rescue services, and supports other programs of Fisheries and Oceans Canada, such as science and fisheries management, and those of other government departments. Its fleet is used to gather scientific data for key decisions such as how much fish can be taken by fishers, what species need protecting, and where aquaculture sites can be established. Use of the Coast Guard's fleet is also important to fishery officers who enforce domestic and certain international rules that govern the fisheries.

#### What we found

 Fisheries and Oceans Canada has made unsatisfactory progress over the last four to six years in implementing our recommendations. The Coast Guard has not been able to use its status as a line organization, and then as a special operating agency within the Department, to become a strong national institution. It still operates largely as five regional coast guards, each with its own way of doing things. The Coast Guard has not developed national policies, service levels, and integrated planning, management, and performance information systems that are necessary to transform itself into a national

- The Coast Guard has an aging fleet that is costly to maintain and operate. Progress in renewing the Coast Guard's fleet has been slow. The current replacement schedule is already becoming outdated and unrealistic. It provides for replacing many vessels long after they have passed their estimated useful lives. For example, the estimated useful life of an icebreaker is 30 years, but, as currently scheduled, they will be between 40 and 48 years old when they are replaced.
- The Coast Guard's vessels are becoming increasingly unreliable, which is having an impact on its ability to support the Department's programs and those of other government departments. For example, certain key fish stock surveys have had to be cancelled because vessels were not available. The absence of standard vessel maintenance practices has contributed to equipment failure on board vessels leading to lengthy and costly periods when vessels are not in service. The project designed to address life cycle management issues is at least two years behind schedule.
- The Coast Guard's modernization of its operations has been slow and not managed well. The Coast Guard has a history of failing to complete planned initiatives. For example, implementation of the special operating agency, which is a key government initiative designed to change the way the Coast Guard operates, is behind schedule. As the Coast Guard has modernized through investing in new technologies, it has been unable to develop and implement strategies to shed old infrastructure and facilities that are no longer needed for their original purpose. New technologies designed to improve marine safety and to save costs through efficiency end up costing the organization more.

Fisheries and Oceans Canada has responded. Fisheries and Oceans follows our recommendation in paragraph 4.89.

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# Passport Services Passport Canada

# Chapter 5

# **Main Points**

#### What we examined

Passport Canada (formerly the Passport Office) is responsible for enforcing the Canadian Passport Order, which specifies who is entitled to a Canadian passport and what conditions must be met. We examined Passport Canada's progress in addressing our audit recommendations from April 2005, when we reported that it was struggling to meet heightened expectations for security and growing demands for service. In this follow-up audit, we assessed the measures that Passport Canada has taken in these areas since our previous audit.

#### Why it's important

Confidence in the passport (that the bearer is who he says he is) is critical to trade, the economy, and travel across borders. Passport Canada is responsible for issuing Canadian passports to eligible Canadian citizens and for revoking Canadian passports when entitlement has been compromised. In 2005–06 it issued an unprecedented volume of passports (over three million), as the proportion of Canadians holding a passport approached 40 percent.

#### What we found

- Overall, Passport Canada has made satisfactory progress toward addressing our recommendations in the relatively short interval since our 2005 audit. However, much work is left to do in order to resolve weaknesses that remain in the critical areas of security and verification of identity.
- Examiners now have appropriate tools and training to determine whether identity documents are authentic. Almost all key employees with access to critical assets had been cleared to the Secret level. But controls over access to the system are still weak. This means that people not authorized to issue passports could trigger the issuance process. Further, Passport Canada has not yet carried out a detailed assessment of security risk. Nor does its recently developed quality assurance program address a key area—how examiners arrive at the decision to grant a passport.
- Missions now print only emergency travel documents, and temporary
  passports with security features similar to those on passports printed
  in Canada. Related training has been developed for consular staff,
  based on domestic training material.

- Passport Canada has received good cooperation from Correctional
  Service Canada and the RCMP, which have information it needs to
  determine passport entitlement. It has significantly enlarged its
  "watch list" for names of people on parole or incarcerated,
  information it has used to refuse applications or investigate them
  further. However, it still has problems to resolve before it can process
  information from the Canadian Police Information Centre (CPIC)
  database that would allow it to check for those charged with serious
  crimes.
- Passport Canada relies on provincial and territorial registries and on Citizenship and Immigration Canada (CIC) for data to verify birth and citizenship information on passport applications. It is currently accessing this data instantaneously through electronic links as part of a complex project with two provinces and two federal partners. However, Passport Canada has not yet established necessary links to identity information with the other provinces and CIC. Efforts to do so continue.
- Passport Canada established a Project Management Bureau that brought appropriate discipline to the way improvement projects are managed. However, the large number and complex nature of the projects represent a challenge for an organization of Passport Canada's size, and there is a risk that a significant delay in any project could seriously impair Passport Canada's plans and operations.

Passport Canada has responded. Passport Canada has agreed with our recommendation and has indicated how it will address it.



# The Management of the Social Insurance Number

Human Resources and Social Development Canada

# Chapter 6

# **Main Points**

#### What we examined

A Social Insurance Number (SIN) is a unique nine-digit number used by any person who earns money through work, pays taxes, contributes to a pension plan, or uses any of a number of government services. SINs are issued and administered under the *Employment Insurance Act*, largely by Service Canada within Human Resources and Social Development Canada. How federal departments may collect and use the SIN is governed by legislation and the Treasury Board's privacy policies.

We looked at the progress the Department and the Treasury Board Secretariat have made in responding to our recommendations from 2002, when we reported that the Department (then Human Resources Development Canada) had not done enough to safeguard and strengthen the integrity of the SIN. We also reported that the policy on how federal organizations should use the SIN was unclear and open to different interpretations. In this follow-up audit, we assessed whether the Department and the Secretariat had taken satisfactory action to ensure the appropriate use of the SIN; to strengthen the process for issuing new SINs and replacement cards; to ensure the accuracy, completeness, and reliability of data in the Social Insurance Register; and to improve the investigation of SIN-related fraud.

### Why it's important

Several of the federal government's largest programs use the SIN. In the 2005–06 fiscal year, the SIN was used in issuing about \$12.5 billion in Employment Insurance benefits, about \$53.8 billion in Old Age Security and Canada Pension Plan benefits, and more than \$1.3 billion in Canada Student Loans. By law, anyone submitting income tax information to the Canada Revenue Agency must also use the SIN. This includes some municipal and provincial agencies, employers, banks, credit unions, and trust companies.

The importance of the SIN is clear from its widespread use both within and outside the federal government. For example, the Social Insurance Register is used to validate the identity of individuals applying for certain federal benefits. Confirming identity has taken on heightened importance in light of growing security concerns, identity fraud, and

use of the Internet and telephone for service delivery. Consequently, maintaining the privacy, security, and integrity of the SIN and the Register is critical in order to protect individuals, businesses, and government from SIN-related fraud.

#### What we found

- Overall progress in addressing our previous recommendations is unsatisfactory because two significant and long-standing issues remain unresolved, despite satisfactory progress in several other areas.
- The Department has made satisfactory progress in improving the way
  it issues SINs and identifies and investigates SIN-related fraud. It has
  strengthened the standards for establishing identity, citizenship, and
  proof of need before issuing a new SIN or a replacement card. It has
  also redesigned the process for issuing SINs and has taken steps to
  adopt a more risk-based approach to SIN investigations.
- While the Department has continued its efforts to improve the Social Insurance Register—the database containing the basic personal information provided by individuals who apply for a SIN—its progress is unsatisfactory. It has set no goals for the accuracy, completeness, and reliability of the data, and its measurement of data quality has been unsystematic and limited in scope. The Department therefore has limited assurance that the accuracy, completeness, and reliability of Register data are adequate, a concern we first raised in 1998. However, current efforts underway during this audit and plans to develop a comprehensive quality measurement and reporting system for the Register indicate that the Department is heading in the right direction to resolve this important issue.
- The policies that govern how federal departments may use the SIN are not clear. The current policies were issued by the Treasury Board under the *Privacy* Act in 1989. In 2003 the Treasury Board Secretariat completed a comprehensive review on the use of the SIN and data matching in the federal government. The review found several gaps in the existing policy framework, including a need for greater clarity concerning the use of the SIN for identity validation and data matching, a concern we first raised in 1998. However, due to other priorities, the Secretariat has not yet issued updated policies and guidelines. In the meantime the continuing lack of clarity has led to different interpretations and applications of the current policies on control of the SIN.

Human Resources and Social Development Canada, Service Canada and the Treasury Board Secretariat have responded. They have agreed with our recommendations and have committed to take action. Their responses are included throughout the chapter.



# International Taxation Canada Revenue Agency

# Chapter 7

# **Main Points**

#### What we examined

We examined the Canada Revenue Agency's progress in addressing the significant recommendations we made in our 2001 and 2002 audit of non-resident taxation and taxation of international transactions of Canadian residents. In 2001 we reported that the Agency lacked an effective approach to assessing risk in its compliance work on non-resident tax files. Further, we found that the Agency did not have electronic data or data-matching systems for non-residents that were comparable with those used for detecting non-compliance by Canadian residents. We also said it was important that the Agency continue pursuing cases of aggressive tax planning and abuse of tax treaties.

In 2002 we reported that the Agency needed to improve its ability to assess the risks associated with taxing the international transactions of Canadian residents. We noted serious problems in the level of audit expertise in key tax services offices that handled the complex international tax audits of large corporations.

In this follow-up audit we looked at how the Agency currently identifies, plans, and staffs both non-resident compliance activities and international audits across the country.

## Why it's important

A growing number of Canadian individuals, trusts, and corporations are undertaking transactions with entities in foreign jurisdictions, in many cases with related parties. This could result in diverting tax away from Canada. The Agency estimates that over 16,000 Canadian corporate taxpayers now report some type of foreign transaction with related parties. The Agency estimates the value of these transactions at over \$1.5 trillion in 2005.

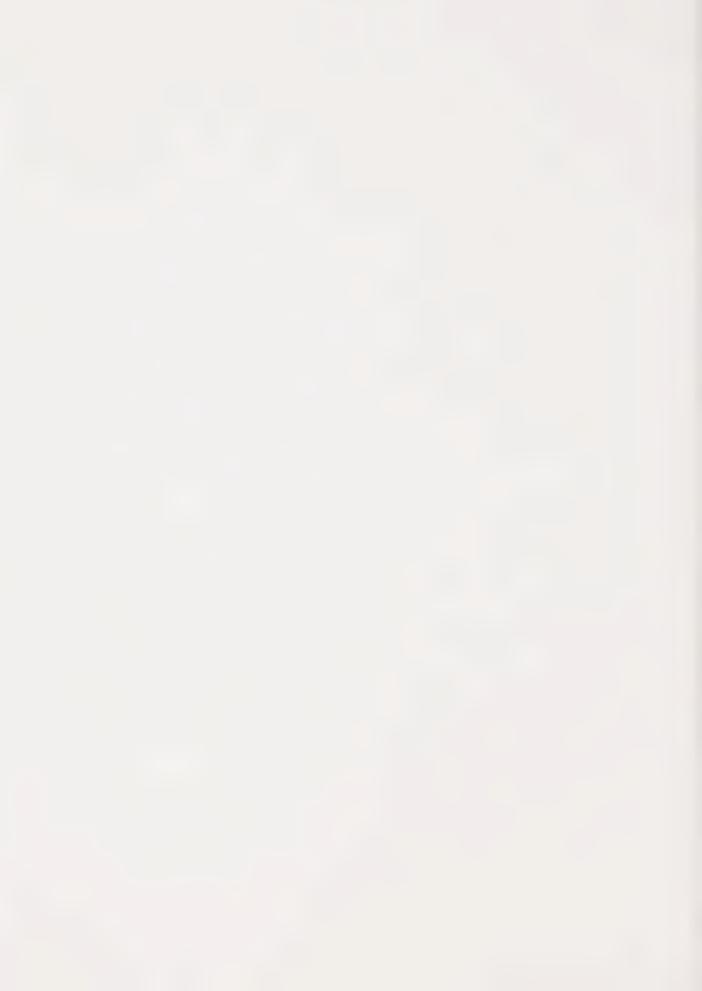
Canada's tax treaties with other countries reduce the amount of tax that must be paid by non-residents on certain types of income earned in Canada. With the growing globalization of the workforce and international investment, it is important that the Agency be able to ensure that the correct amounts of tax are withheld and that

non-residents file returns if required and pay the taxes they owe. Last year over \$4.9 billion in taxes was paid by non-residents.

#### What we found

- Overall, the Agency has made satisfactory progress in implementing our recommendations. It has not fully implemented some of our recommendations, however, because they concern complex issues that take a long time to resolve or they require legislative changes that have not been made.
- The Agency has taken action to clarify administrative policies, to properly record both the time spent on international audits and the results of those audits, and to verify the payment of tax on capital gains by emigrants. It also continues to be vigilant in recognizing the tax risk associated with aggressive international tax planning and possible treaty abuse. With the additional resources it received in the February 2005 federal Budget, the Agency is developing its research capacity to identify new international tax planning schemes and has directed more resources to auditing international tax avoidance.
- The Agency has undertaken some good initiatives in developing risk assessment techniques and tools for planning audits of international tax issues. It has made satisfactory progress in implementing most elements of the risk assessment approach we recommended in 2002.
- The Agency has not developed any new initiatives to deal with the low level of international tax audit experience, which continues in some of the Tax Services Offices with the highest-risk files. A lack of expertise could result in an inconsistent international audit approach and coverage across the country, and a loss of tax.
- The Agency has not made satisfactory progress in implementing electronic data capture and matching of non-resident tax data which would improve both service to non-residents and non-resident tax compliance activities.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed response follows each recommendation throughout the chapter.



Appendix

# **Appendix** Report on the audit of the President of the Treasury Board's report, *Tabling of Crown Corporations' Reports in Parliament*

## Tablings in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the Financial Administration Act requires the President of the Treasury Board to lay before each House of Parliament, no later than 31 December of each year, a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. The Act also requires the Auditor General to audit the accuracy of the report and to present the results in her annual report to the House of Commons.

The President of the Treasury Board's report on the timing of tablings was included in the 2006 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada, which was tabled on 13 December 2006.

At the time that our November 2006 Report was going to print, we were unable to include the results of the above audit, since the President of the Treasury Board's report had not yet been finalized. Our Auditor's report was subsequently appended to his report and is reproduced on page 32.

## **Auditor's Report**

To the House of Commons:

As required by subsection 152(2) of the Francial Administration. Act, I have audited, for the year ended 31 July 2006, the information presented in the report Tabling of Conce Corporations' Reports in Parliament included in the 2006 Annual Report to Parliament. Conce Corporations and Other Corporate Interests of Canada. The reports are the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information included in the report, as required by section 152, based on my audit.

I conducted my audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the information disclosed in the report is free of significant misstatement. My audit included examining, on a test basis, evidence supporting the dates and other disclosures provided in the report.

In my opinion, the information presented in the report *Tabling of Crown Corporations' Reports in Parliament* is accurate, in all significant respects, in accordance with its section Deadlines for Tabling in Parliament and Results Achieved.

2 Engole

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada 10 November 2006

# Report of the Auditor General of Canada to the House of Commons—February 2007

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A Message from the Auditor General of Canada







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2007



A Status Report
of the
Auditor General of Canada
to the House of Commons

**FEBRUARY** 

Chapter I
Advertising and Public Opinion Research



Office of the Auditor General of Canada



# 2007



# A Status Report of the Auditor General of Canada to the House of Commons

# **FEBRUARY**

Chapter 1
Advertising and Public Opinion Research



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Chapter

Advertising and Public Opinion Research

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chapter in No. 2001 10 10 10 10 10 10 10 10 10 10 10 10
we also draw upon the standards and practices of other disciplines.

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# Advertising and Public Opinion Research

## **Main Points**

#### What we examined

When we last reported on advertising and public opinion research in 2003, we assessed the extent to which the government had ensured effective control over its spending on these activities and whether it was measuring their results and reporting them to Parliament.

This time, we audited advertising campaigns and public opinion research projects to see whether the departments administering them were exercising adequate management and control and whether changes made in response to our 2003 recommendations were effective. We also looked at the roles played by the Privy Council Office, the Treasury Board Secretariat, and Public Works and Government Services Canada (PWGSC). We did not follow up on our 2003 audit of sponsorship activities; nor did we update our work on the quality of public opinion research, which we reported in 2005.

## Why it's important

The government uses advertising to inform the Canadian public not only about government services, programs, initiatives, and policies but also about their rights, and responsibilities. It is also an important tool for informing the public about dangers or risks to the environment or public health and safety, for example. In the 2004–05 fiscal year, the government paid \$49.5 million to agencies for advertising and media placements.

Public opinion research plays an important role in developing policies and programs that affect the public. It is a critical tool for gathering information on the public's opinions, perceptions, and reactions or views. In the 2004–05 fiscal year, the government spent \$29 million on public opinion research.

#### What we found

- PWGSC has made satisfactory progress in ensuring that it awards contracts for advertising and public opinion research through a fair and transparent process, in accordance with the Treasury Board's Contracting Policy.
- Departments have made satisfactory progress in ensuring that they
  plan for advertising activities and manage suppliers in accordance
  with the Communications Policy of the Government of Canada.

- The government has made satisfactory progress in its control over the expenditure of public funds on advertising and public opinion research activities.
- The results of advertising and public opinion research have been measured and reported in accordance with the requirements established by the Communications Policy of the Government of Canada.
- Some departments are still not complying with all requirements that apply to public opinion research. For example, some have contacted a research firm before informing PWGSC that they intend to carry out public opinion research activities.

The government has responded. The government has agreed with the observations and recommendation of our report. Its detailed response follows the recommendation in the chapter.

# Introduction

- 1.1 Advertising is one approach that the federal government uses to communicate with the Canadian public. Through advertising, it disseminates information about government services, programs, initiatives, and policies. Advertising is also used both to inform people about their rights and responsibilities, and to alert them to dangers or risks affecting public health and safety or the environment.
- 1.2 Public opinion research (POR) in government involves gathering information on the opinions, attitudes, perceptions, and ideas of Canadians—including the government's own employees—relating to a broad range of government activities. For example, POR is routinely used when the government is developing policies and programs, and in carrying out studies of quality of service and customer satisfaction.
- 1.3 In 2003, we audited government expenditures on advertising and public opinion research. In 2004, the government imposed a moratorium on advertising. The government's spending on advertising (by all departments and agencies) has decreased substantially since our last audit of this area, from \$69.8 million in the 2003–04 fiscal year to \$49.5 million in the 2004–05 fiscal year. The decrease in advertising is a result, in part, of federal elections in 2004 and 2005, and the moratorium on government advertising. The Communications Policy of the Government of Canada prohibits departments from carrying out any activities related to the design or implementation of an advertising campaign during a general election. Spending on public opinion research has increased somewhat, from \$25.4 million in the 2003–04 fiscal year to \$29 million in the 2004–05 fiscal year.

## Roles and responsibilities for advertising and public opinion research

- **1.4** Exhibit 1.1 summarizes the roles and responsibilities for administering government advertising activities.
- **1.5** Roles and responsibilities for the administration of public opinion research activities are summarized in Exhibit 1.2.

Exhibit 1.1	Responsibilities	for advertising
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Cabinet	Approves allocation of funds for advertising
	Reviews campaign results for effectiveness
Treasury Board	Issues policies on managing government communications and procurement
	Approves submissions for the allocation of funds to departments for approved advertising campaign:
Treasury Board Secretariat	<ul> <li>Assesses advises on and processes the alloadion of funds to departments through the Treasury Board submission process</li> </ul>
	Posts funding allocations on its website
	<ul> <li>Develops and monitors the effectiveness of policies and procedures for managing government communications and procurement</li> </ul>
Privy Council Office	Supports Cabinet and its committees in setting advertising priorities
	Chairs the Government Advertising Committee
	<ul> <li>Reviews and challenges departmental advertising proposals on strategy, content, messages, and evaluation, and facilitates regional allocations and tailoring</li> </ul>
	Monitors government advertising and provides periodic reports to Cabinet or its designated committee
Public Works and Government Services Canada	Contracts for advertising agencies and the government's Agency of Record through its Communications Procurement Directorate
	<ul> <li>Liaises with departments on advertising procedures through its Advertising Coordination and Partnership Directorate</li> </ul>
	Manages the Advertising Management Information System
	Issues annual report on government advertising activities and results
	Develops and delivers advertising training opportunities for departments
	Provides data to the Privy Council Office for periodic reporting to Cabinet
Federal departments and	Develop advertising proposals for consideration by Cabinet
agencies	Prepare Treasury Board submissions for allocation of funds for approved advertising campaigns
	Implement and evaluate advertising campaigns
	<ul> <li>Account for funds received for advertising in accordance with Treasury Board submissions and campaign approvals</li> </ul>
Government Advertising	Approves advertising proposals
Committee	Ensures advertising campaigns are aligned with government priorities
	Reviews and provides feedback to departments on advertising proposals they submit for funding
	Facilitates the development of horizontal initiatives involving multiple departments

Source: Communications Policy of the Government of Canada (2004)

Exhibit 1.2	Responsibilities	for public	opinion	research
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Treasury Board	Issues policies and procedures for managing government communications and procurement		
Treasury Board Secretariat	Develops and monitors policies and procedures for managing government communications as procurement		
Public Works and	Contracts for public opinion research services		
Government Services Canada (PWGSC)	<ul> <li>Serves as the technical, coordinating, and contracting authority for public opinion research services in the Government of Canada</li> </ul>		
	<ul> <li>Facilitates public opinion research studies by assisting departments and agencies throughout the process, helping to ensure their objectives are met in a cost-effective manner</li> </ul>		
Federal departments and agencies	Coordinate the planning and implementation of public opinion research initiatives with the Public Opinion Research Directorate of PWGSC		
	Contract public opinion research services through the Communications Procurement Directorate of PWGSC		
	Ensure that the principles of fair information practices are respected		
	Ensure the quality and value of research they commission or produce		
	<ul> <li>Provide copies of final reports to PWGSC for deposit with the Library of Parliament and Library and Archives Canada in written or electronic form</li> </ul>		
	Share results with other federal institutions		
	Release final results to the public on request		

Source: Communications Policy of the Government of Canada (2004)

#### What we found in 2003

- 1.6 In 2003, we audited the government's management of its advertising and public opinion research activities. (The report was prepared to be tabled in November 2003, but the House of Commons was not in session so the tabling was delayed until February 2004.) Our key findings on the government's management of its advertising activities were as follows:
  - Public Works and Government Services Canada (PWGSC) did not provide all suppliers equitable access to government business and did not obtain best value in selecting advertising agencies.
  - The process for choosing advertising agencies did not meet the requirements of the Treasury Board's Contracting Policy. In some cases we found no evidence that a selection process had been carried out at all.
  - While some departments had ensured that advertising agencies had fulfilled their contractual obligations, other departments had not.
  - Departments generally did not meet the requirements of the *Financial Administration Act*.

- 1.7 With respect to public opinion research, in November 2003, we reported that POR activities were being managed with a degree of transparency. For the most part, roles, responsibilities, and procedures were clear. However, we reported the following:
  - In some cases, departments did not clearly indicate the need for undertaking particular public opinion research.
  - In a few cases we noted that the government had paid for syndicated research that monitored, among other things, voting behaviour and political party image, contrary to its guidelines in effect at the time.
  - Many departments subscribed to the same research, and Communication Canada, the former mandatory service provider, did not take advantage of savings opportunities by coordinating bulk purchases of syndicated surveys.
- 1.8 In April 2005, the Public Accounts Committee made numerous recommendations in response to our 2003 findings on advertising and public opinion research. These recommendations related to financial management and control, internal audit, contract management, file management, Crown corporations, Parliament, and the public service.

#### Key events since our 2003 audit

- 1.9 Several organizational changes were introduced. Effective 1 April 2004, Communication Canada was dissolved and PWGSC established the new Advertising Coordination and Partnership Directorate to replace it. This directorate was tasked with providing advertising-related planning, coordination, advisory, and training services to Government of Canada organizations subject to the Common Services Policy and the Communications Policy of the Government of Canada. PWGSC's Communications Procurement Directorate remained the Government of Canada's contracting authority for advertising.
- 1.10 In February 2004, the government established the Commission of Inquiry into the Sponsorship Program and Advertising Activities. Its task was to investigate and report on questions raised by chapters 3 and 4 of our November 2003 Report about the government's sponsorship program and advertising. The Commission was also to make recommendations to the Government of Canada that would prevent future mismanagement of sponsorship programs or advertising activities. The inquiry results were published in two parts. The first, "Who Is Responsible," issued in November 2005, set out the

Commission's findings on responsibility and the second, "Restoring Accountability—Recommendations," issued in February 2006, listed the Commission's recommendations.

- 1.11 In May 2004, PWGSC's Communications Procurement Directorate awarded standing offers and supply arrangements for obtaining advertising and public opinion research. These tools were designed to increase competition among suppliers for projects, to improve transparency in selecting suppliers, to provide government departments and agencies with a range of procurement options, and to provide a faster and more effective way to obtain these services.
- **1.12** Effective 1 August 2006, the Treasury Board approved a revised Communications Policy of the Government of Canada. The principal changes in the policy are to
  - add a statement emphasizing that the bidding process for contracting of public opinion research and advertising activities must be open, fair, and transparent;
  - include a new definition of advertising to distinguish it from nonpaid messages such as public service announcements and from related services such as public relations and events management; and
  - require departments to provide copies of final reports of public opinion research to the Library of Parliament, Library and Archives Canada, and PWGSC within six months of the completion of fieldwork.

#### Focus of the audit

- 1.13 This status report assessed what progress the government has made in response to the observations and recommendations in our 2003 report. To carry out this work we reviewed all advertising campaigns contracted for between 1 April 2004 and 31 August 2006 and a representative sample of public opinion research projects carried out by the departments included in our audit.
- 1.14 We assessed the role of two central agencies (the Privy Council Office and Treasury Board Secretariat) and the role of Public Works and Government Services Canada (PWGSC) in contracting for advertising and public opinion research on behalf of other government departments. More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# Observations and Recommendation

# Contracting for advertising and public opinion research services

- 1.15 In our 2003 audit, we reported that Public Works and Government Services Canada (PWGSC) did not provide all suppliers equitable access to government business, and that it did not obtain best value in selecting advertising agencies. We also noted that advertising agencies were selected in a manner that did not meet the requirements of the Treasury Board's Contracting Policy.
- 1.16 For this status report, we assessed progress made by PWGSC in strengthening the procurement of advertising and public opinion research services since our 2003 audit. Specifically, we looked at the procedures that PWGSC was using to
  - select suppliers to provide advertising and public opinion research services.
  - award advertising and public opinion research contracts to firms on the established standing offer and supply arrangement lists, and
  - select an Agency of Record to buy advertising space and time for the Government of Canada.
- 1.17 We expected PWGSC to have made progress in carrying out these procedures in accordance with the Treasury Board's Contracting Policy, which calls for an open, fair, competitive procurement process that is aimed at obtaining the best value possible.

## The process for choosing potential suppliers was fair and transparent

- 1.18 To address the weaknesses reported in our 2003 audit, PWGSC established, through a competitive process, standing offer and supply arrangement lists (Exhibit 1.3). These lists represent a pool of qualified firms that could provide advertising and public opinion research services to government departments.
- 1.19 PWGSC issued a competitive request for proposals to establish standing offer and supply arrangement lists for advertising and public opinion research services. We found that PWGSC had established a statement of requirements, and had developed criteria for evaluating proposals from potential suppliers. An independent third party contracting specialist, known as a fairness monitor, was retained to observe the technical evaluation portion of the procurement process for the advertising supply arrangement and the standing offers.

#### Exhibit 1.3 Key definitions

**Standing offer**—A standing offer results when the government accepts a proposal from a potential supplier to provide goods and/or services at pre-arranged prices, under set terms and conditions, when and if required. Standing offers are used for advertising services that will cost up to \$75,000 and for public opinion research services valued up to \$200,000. There is one standing offer list for each service for all federal departments to use. A standing offer is not a contract, and neither party is legally bound as a result of signing this document.

**Supply arrangement**—A method of supply where bids are selected from a pool of prequalified suppliers. Supply arrangements are used for advertising services that will cost between \$75,000 and \$750,000 and public opinion research service contracts valued up to \$400,000. There is one supply arrangement list for each service for all federal departments to use. A supply arrangement is not a contract, and neither party is legally bound as a result of signing this document.

**MERX**—Contracts for advertising and public opinion research valued over \$750,000 and \$400,000 respectively must be posted on MERX, the electronic tendering system serving both federal government departments and suppliers. It posts procurement notices and bid solicitation documents for suppliers to bid on federal government contracts for goods and services.

- **1.20** We noted that all successful suppliers of advertising and public opinion research services met mandatory requirements.
- **1.21** We also noted that PWGSC evaluated the financial component of the technically compliant bids. The evaluation of these bids was carried out in a fair manner.
- **1.22** PWGSC posted advertising contracting opportunities on MERX when the value of the proposed procurement exceeded an established threshold of \$750,000.

#### PWGSC has strengthened the procedures for awarding advertising contracts

- 1.23 In our 2003 audit, we reported that advertising agencies were selected in a manner that did not meet the requirements of the Treasury Board's Contracting Policy. We noted that in some cases there was no evidence that a selection process had been conducted at all.
- **1.24** We expected that PWGSC would have made satisfactory progress in ensuring that advertising contracts were awarded in a fair, equitable, and transparent manner.
- 1.25 Standing offers. To improve the basis on which firms with standing offers were selected to carry out individual advertising campaigns, PWGSC established a mechanism for awarding government contracts based on the relative ranking of each firm when the standing offer list was established.

- 1.26 For advertising campaigns valued at less than \$75,000, PWGSC has a formal process for awarding contracts among the agencies on its standing offer list. At the time the standing offer list was developed in May 2004, the ten firms on the list were ranked from highest to lowest, according to the number of points awarded to them when their bids were evaluated. Based on this ranking, each firm was assigned a percentage share that they would receive of government business for advertising contracts valued at less than \$75,000. PWGSC provides a department managing a campaign with the names of the three firms on the standing offer list that have received the least amount of their established market share of business. The department is required to select one of the three firms.
- 1.27 As part of our audit, we assessed this process. For the advertising campaigns valued at less than \$75,000 that were administered by the departments we audited, we reviewed each contract file to ensure it contained an analysis of the amount of government business allotted to each firm and identified the three firms that had received the least amount of their allotted share of business. We found that each file contained the necessary analysis and that departments were asked to choose from among these three firms. We noted in our tests that the system was properly updated each time a contract was issued.
- 1.28 Supply arrangement. For advertising campaigns valued between \$75,000 and \$750,000, government business is awarded through competitive tendering among all firms on the approved supply arrangement list. We reviewed the contract award process for the advertising campaigns in this expected dollar range in the departments we audited to determine whether PWGSC had followed its established procedures.
- 1.29 We found that for each of the nine advertising campaigns that had values within this dollar range, PWGSC had conducted a competitive tendering and selected the winning firm based on the evaluation of the proposals by an evaluation team consisting of representatives from PWGSC and the client department.
- 1.30 MERX. For advertising campaigns valued at more than \$750,000, a request for proposal must be posted on MERX. For the departments included in our audit, there was one advertising campaign that had a budgeted value in excess of \$750,000. We found that a competitive tendering was carried out on MERX in accordance with the Treasury Board's Contracting Policy.
- **1.31** In our view, PWGSC has adhered to its established practices for awarding the government's advertising contracts.

Agency of Record—A private sector supplier that negotiates, consolidates, purchases, and verifies advertising media time and space for all federal government departments. Under contract with the Government of Canada, the Agency of Record is selected through a competitive process.

#### The process for selecting the Agency of Record was fair and transparent

1.32 As part of our audit, we assessed the process that PWGSC used for selecting one Agency of Record for the entire Government of Canada. We found that the process had been conducted in a fair and transparent manner. The request for proposals clearly stated the mandatory requirements and how bids would be rated. We noted that the bid evaluation team followed a formal evaluation process. We also found that the evaluation process included the use of a fairness monitor.

#### PWGSC has made satisfactory progress in improving contracting practices

**1.33** Based on the audit work completed, we have concluded that the contracting practices used by PWGSC to establish standing offer and supply arrangement lists and for selecting the Agency of Record were in accordance with the Treasury Board's Contracting Policy (Exhibit 1.4).

Exhibit 1.4 PWGSC has made satisfactory progress in improving contracting practices

	Selection of supplier	Allocation of government advertising business	Selection of Agency of Record
Public Works and Government Services Canada	•	•	•

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# Managing advertising activities in departments

#### Advertising activities were properly managed

- 1.34 In our 2003 audit, we reported that while some departments had carried out their responsibilities for managing advertising activities and ensuring that advertising agencies had fulfilled the requirements of contracts, others had not.
- **1.35** For this status report, we assessed the steps that departments had taken since 2003 to strengthen their management of advertising activities. We looked at progress in three areas:
  - planning and approval,
  - · development of a clear statement of work, and
  - · documentation of decisions made.

- 1.36 To carry out our assessment, we examined all advertising campaigns conducted by the departments included in our audit during the 2004–05 and 2005–06 fiscal years and all advertising campaigns conducted between 1 April 2004 and 31 August 2006.
- 1.37 We expected that, in accordance with the Communications Policy of the Government of Canada, departments would have
  - obtained the approval of Cabinet and sought the advice of Privy Council Office and PWGSC for proposed advertising campaigns,
  - developed a clear statement of work before choosing an advertising agency,
  - required advertising agencies to define a strategy to reach the identified target audience and to provide an analysis of the media habits of that target audience, and
  - documented key management decisions about the advertising campaign.
- 1.38 Planning and approval. We found that, in all but one case, departments had obtained the necessary approval from Cabinet before initiating the campaign. With the Public Health Agency of Canada's (PHAC) pandemic influenza campaign, there was no Cabinet decision for the campaign. PHAC explained that a proposal was not submitted for Cabinet approval and that an advertising agency was hired to develop a campaign that would only be launched in case of a pandemic. The Government Advertising Committee was informed of this and acknowledged this course of action in the Committee's records of proceedings. Due to the nature of the campaign, we are satisfied with the explanation provided by the Department.
- 1.39 Statement of work. Before selecting or meeting with an advertising agency, departments submit a statement of work for an advertising initiative to PWGSC. The statement of work should include, for example, the objectives and purpose of the campaign and the timeframe for work to be completed. All advertising campaigns contracted through PWGSC had developed a clear statement of work before the selection of an advertising agency.
- 1.40 Strategy and design. As required, departments work with their advertising agency to develop a strategy and design a campaign for reaching the target audiences. In all cases we examined, we found a strategy and a campaign design.
- 1.41 Documentation of decisions. We expected that departments would maintain adequate documentation to demonstrate that they

had followed the Communications Policy of the Government of Canada in managing advertising, and to document decisions. We found that departments had generally maintained adequate documentation to record what they had done to administer advertising campaigns in accordance with the requirements of the policy.

- 1.42 We did note, however, that Human Resources and Social Development Canada (HRSDC) did not have adequate documentation for two advertising campaigns to provide a clear and complete picture of the transactions and decisions relating to these projects. While HRSDC had prepared and submitted documentation to PWGSC, we found that there was only limited information available within HRSDC. We noted that HRSDC was able to provide the documents to us by obtaining copies from PWGSC. The Communications Policy of the Government of Canada as well as principles of sound management, require each department to create and retain complete information on all its advertising campaigns. This information should have been available from HRSDC. We also noted that within HRSDC one public opinion research file was not adequately documented.
- **1.43 Satisfactory progress.** Based on the audit work completed, we have concluded that departments have made satisfactory progress since our last audit in planning for advertising campaigns and administering the advertising process (Exhibit 1.5).

#### Media placements were properly authorized

1.44 As part of our audit, we examined the process used by PWGSC to issue work authorizations to the Agency of Record so that they can place a government advertisement in the media (for example, television, radio, or print). Work authorizations are issued by PWGSC in response to requests from departments that require the Agency of Record to acquire media placements.

Work authorization—The written authorization issued by PWGSC to the Agency of Record to purchase advertising media space and/or time from media suppliers.

Exhibit 1.5 The departments have made satisfactory progress in managing advertising activities

	Planning and approval	Statement of work	Documentation of key decisions
Departments' progress in managing advertising activities	•		•

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

- 1.45 Work authorizations are an important part of the advertising process because the cost of the media placements is the most significant portion of the expenditure for advertising. This work authorization initiates the process of placing the advertisement in the media. The work authorization also forms the basis on which commissions will be paid to the Agency of Record.
- 1.46 We expected that work authorizations would be issued in accordance with the terms and conditions of the contract established by the government and that there would be work authorizations with the Agency of Record for all government media placements.
- 1.47 We examined a sample of work authorizations issued for each of the advertising campaigns carried out by the departments included in our audit. We wanted to determine if each placement had been properly authorized by PWGSC.
- **1.48** We found that there were approved work authorizations for all placements.

#### Results of advertising were evaluated and reported

- 1.49 The Communications Policy of the Government of Canada requires that departments evaluate all advertising campaigns that exceed \$400,000 in media placements. Departments must assess the impact and value of the advertising initiative before and after it is implemented, and provide the results of the evaluation to the Privy Council Office and PWGSC. We expected that all departments would comply with this requirement.
- 1.50 In the advertising campaigns that we reviewed, 10 of the 26 campaigns were valued at over \$400,000 in media placement and therefore required pre- and post-campaign evaluation. We noted that campaigns were pre-tested and post-tested and the results were reported in all but one case (Finance Canada's GST Reduction Campaign, which did not undergo pre-testing but did undergo post-testing).

## Withdrawal of advertising during elections worked as intended

1.51 The Communications Policy of the Government of Canada states, with some exceptions, that institutions must suspend all advertising activities during general elections. In our 2003 audit, we reported that during the November 2000 general election, advertisements were pulled off the air.

- 1.52 In this audit, we assessed whether departments had suspended media placement during the general elections in June 2004 and January 2006. Advertising during a general election is only permitted when an institution
  - is required by statute or regulation to issue a public notice for legal purposes;
  - must inform the public of a danger to health, safety, or the environment; or
  - must post an employment or staffing notice.
- **1.53** We found that there were no advertisements placed during the two general election periods and that the system reacted swiftly to pull ads off the air.
- 1.54 In addition, the Policy states that advertising plans and activities must stop as soon as a general election is called, and cannot resume until the day the elected government is sworn into office.
- 1.55 The Policy established this requirement to avoid the risk that a department would work on an advertising project that might not remain a priority should a new government be elected. We expected that all departments would comply with this requirement.
- 1.56 We found that HRSDC, in contravention of the policy, continued to create its advertising campaigns (Services for Seniors, Services for Persons with Disabilities, and Post-Secondary Education: ICCSFA Pan-Canadian Communications Initiative) during general elections. While the department has indicated that it continued its work with the approval of the Privy Council Office and in accordance with a federal-provincial Memorandum of Understanding, we are of the view that HRSDC's continuation of its advertising activities was not in accordance with the Communications Policy of the Government of Canada.

# Managing public opinion research activities in departments

- 1.57 In our 2003 audit, we reported that public opinion research activities were managed with a certain degree of transparency and that roles, responsibilities, and procedures were generally clear, and selecting suppliers of public opinion research services followed the rules. We also noted weaknesses in the following areas:
  - Some project files did not clearly explain project objectives or rationale.
  - There was some departure from rules in managing standing offers and call-ups.

- · Not all public opinion research reports were released to the public.
- 1.58 For this status report, we expected that in managing public opinion research projects, departments would
  - document their rationale for selecting suppliers from the standing offer and supply arrangement lists, and
  - · document the need for and planned use of public opinion research.
- **1.59** We assessed the management of public opinion research through a review of all high value items (those in excess of \$200,000) and a representative sample of contracts with values between \$25,000 and \$200,000.
- 1.60 We also expected PWGSC to deposit copies of final reports with the Library of Parliament and Library and Archives Canada, as per the requirements of the Communications Policy of the Government of Canada.

#### Departments document rationale for selecting firms

- 1.61 As part of our audit, we assessed whether departments were providing a rationale for the selection of public opinion research firms for research projects valued between \$25,000 and \$200,000.
- 1.62 The contract between the government and suppliers requires that departments select from among the public opinion research firms listed on the standing offer list the firm they believe is most suited to the opinion research that the department requires. Departments must document the rationale for their selection. Departments consider such things as the firm's knowledge of the subject matter, its experience with target populations, its expertise with specific techniques, its availability to supply the service at the time the request is made, and any proprietary techniques to be applied to the research process.
- **1.63** We noted that for each public opinion research project we audited, the selection rationale was documented.

## Unsatisfactory progress in documenting the need for planned research

- 1.64 The Communications Policy of the Government of Canada states that departments must provide to PWGSC a description of any POR project that it wants to carry out. This description should include a statement of the need for the project and how the results will be used.
- 1.65 In our 2003 audit, we reported that 20 percent of departmental public opinion research projects did not demonstrate why the research

was needed or how the results would be used. In this audit, we assessed whether departments had made progress in this area.

- 1.66 In our current audit, we reviewed all high value public opinion research contracts (those in excess of \$200,000) and a representative sample of contracts between \$25,000 and \$200,000. We noted that in the five high value contracts, the required statement of need and intended use of the research were documented. We also noted that in our representative sample departments had documented the need for undertaking the project and how the results will be used in 80 percent of the cases. This is approximately the same rate of compliance with the policy as we reported in 2003.
- **1.67 Mixed progress.** In general, we found that departments have made satisfactory progress in documenting the rationale for the selection of a supplier from the standing offer lists. However, departments have made unsatisfactory progress in documenting the need for the planned research (Exhibit 1.6).

Documented rationale for supplier selection

Government progress in documenting public opinion research activities

Bocumented rationale for supplier selection

Government progress in documenting public opinion research activities

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Departments did not notify PWGSC of planned research in advance

- 1.68 The Communications Policy of the Government of Canada requires that departments submit to PWGSC a description of the work to be carried out before contacting a potential POR firm.
- 1.69 We found that departments adhered to this policy requirement for two of the five high value contracts we examined. We also noted that in 85 percent of the files in our representative sample, departments had not submitted to PWGSC the necessary documentation prior to contacting a POR firm. This minimizes PWGSC's ability to assist departments by reviewing their research objectives, methodologies, and instruments; advising on the preparation of statements of work; advising on project costs; and

helping to develop evaluation criteria and other materials used in tendering services and selecting a supplier.

1.70 Recommendation. Departments should ensure that the required notification of planned research is provided to Public Works and Government Services Canada prior to contacting research firms.

The government's response. The Treasury Board Secretariat, the Privy Council Office, and Public Works and Government Services Canada (PWGSC) agree with the recommendation. PWGSC has unique expertise and can advise departments on the tendering and contracting process, and in the development of research plans, strategies, and tools.

In January 2007, the Secretary of the Treasury Board sent a notice to departments concerning requirements of the Communications Policy of the Government of Canada related to public opinion research and advertising, in particular the requirement to notify PWGSC prior to contracting public research firms.

Recent changes have also been made to strengthen and enhance oversight of the early stages of the public opinion research process. As part of the Federal Accountability Action Plan, the Communications Policy of the Government of Canada was amended on 1 August 2006 to require departments to forward draft instruments to PWGSC, on request, no less than 24 hours prior to fieldwork being conducted for advice on compliance with policy, legislation, and generally accepted market research and Government of Canada standards.

#### PWGSC appropriately disclosed results of public opinion research

1.71 Under the Communications Policy of the Government of Canada, departments are required to provide results of custom public opinion research to PWGSC, which in turn deposits them with the Library of Parliament and Library and Archives Canada. The primary purpose is to provide transparency, through public disclosure, of the nature of the public opinion research that the government has conducted.

1.72 In our 2003 audit, we reported that departments delayed forwarding their final project reports to the former Communication Canada. Therefore, results were not released within the required three months established by the Communications Policy of the Government of Canada. In addition, some results were not released at all.

- 1.73 As part of our current audit, we looked to see if the results of POR projects included in our representative sample had been deposited according to the Policy.
- **1.74** We found that in each case, the results of completed POR had been provided by departments to PWGSC and that all of these reports were sent from PWGSC to the Library of Parliament and Library and Archives Canada (Exhibit 1.7).
- 1.75 We noted that the Policy was amended on 1 August 2006 to require that departments, not PWGSC, be responsible for depositing, within six months of the completion of public opinion research fieldwork, copies of final reports to the Library of Parliament and to Library and Archives Canada.

Reporting results to the public

Public Works and Government Services Canada

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# Controlling the expenditure of public money

#### Satisfactory progress in authorizing the expenditure of public money

- 1.76 In our 2003 audit, we noted a number of instances of non-compliance with the requirements of the *Financial Administration Act* (FAA). Specifically we noted that in many instances, documentation to support the expenditure of public money could not be found and in some instances there was an absence of written contracts to govern work completion. We also noted that the FAA's requirements for the expenditure of public money were not always met and, in some instances, departments had not challenged commissions charged on subcontract work.
- 1.77 We expected that departments would adhere to the requirements of the FAA's section 34 in paying for advertising and POR services. Section 34 requires that before a payment is made for goods or services, departments have assurance that value has been received.
- 1.78 We assessed a sample of invoices for each of the advertising and public opinion research projects included in our audit to determine if each invoice was administered according to the established

departmental policy and met the FAA requirements. We audited invoices that amounted to 84 percent of the expenditures for the advertising and public opinion research projects included in our audit. We sought to ensure that departments had received appropriate support for claims submitted for payment. We examined 317 invoices amounting to \$32.3 million.

- 1.79 We noted that in 92 percent of the invoices we audited as part of our representative sample, the department had received adequate documentation from the public opinion research firms to support the invoice. Similarly we noted that 100 percent of the invoices we examined for high value public opinion research contracts were properly supported. We also noted that 99 percent of the invoices that we examined for advertising contracts were properly supported.
- 1.80 In those instances where invoices were not fully supported it generally related to inadequate support for overhead charges or payment of fees to individuals who had participated in public opinion research focus groups.
- 1.81 For those invoices with sufficient documentation, we found that 87 percent of the invoices in our sample of POR transactions were properly signed and dated under section 34 of the FAA. We also found that 78 percent of the advertising invoices audited were properly signed and dated. In the instances where approvals for section 34 were signed but not dated, it was difficult to determine if the person who signed had delegation of authority at the time of authorizing payment.
- 1.82 We noted that to address the concerns raised in our previous audit about commission-based compensation, government contracts now have established clear hourly rates for most types of advertising contracts. We also noted that there were written contracts for all advertising campaigns and all public opinion research projects.
- **1.83** Based on the audit work completed, we have concluded that departments have made satisfactory progress in ensuring that there is adequate documentation to support payment of invoices submitted (Exhibit 1.8).

Exhibit 1.8 Progress in authorizing the expenditure of public money is satisfactory

	Authorizing the expenditure of public money
Departments' progress in compliance with the Financial Administration Act	
Satisfactory—Progress is satisfactory, given the significance the time that has elapsed since the recommendation was m	
Unsatisfactory—Progress is unsatisfactory, given the signific issue, and the time that has elapsed since the recommendar	

## Conclusion

- **1.84** In our current audit, we found that PWGSC has made satisfactory progress in ensuring that it awards contracts for advertising and public opinion research services in a fair and transparent manner in accordance with the Treasury Board's Contracting Policy.
- **1.85** Departments have made satisfactory progress in ensuring that planning for advertising activities and managing suppliers is done in accordance with the Communications Policy of the Government of Canada.
- **1.86** The government has made satisfactory progress in ensuring that there was adequate documentation to support invoices submitted for payment for advertising and public opinion research activities.
- 1.87 The results of advertising and public opinion research have been measured and reported in accordance with the requirements established by the Communications Policy of the Government of Canada.
- 1.88 Some departments are still not complying with all requirements that apply to public opinion research. For example, some have contacted a research firm before informing PWGSC that they intend to carry out public opinion research activities.

## About the Audit

#### **Objectives**

This status report assessed the actions taken by the government to ensure effective government-wide control over the spending of public money through advertising and public opinion research and to respond to observations and recommendations contained in our November 2003 Report (Chapter 4 on advertising and Chapter 5 on public opinion research). Our objectives were to determine

- the extent to which the government had taken corrective action in response to our past recommendations;
- · whether the government had implemented adequate control over the spending of public money on advertising and public opinion research activities, and complies with relevant authorities; and
- whether the results of the activities had been measured and reported in accordance with the requirements of the Communications Policy of the Government of Canada.

With respect to departments and agencies, we determined whether they have adequate management and control over advertising and public opinion research activities.

#### Scope and approach

To conduct our audit work, we reviewed transactions from the 2004–05 and 2005–06 fiscal years, and transactions between 1 April 2004 and 31 August 2006. We assessed all the advertising campaigns within the departments in our audit. We selected a representative sample of public opinion research activities. We did not audit the use of public notices, which are paid announcements of such things as tenders and public hearings. To assess the control of public expenditures, we audited invoices totalling 84 percent of the value of the expenditures for each advertising campaign and public opinion research project.

In addition, we analyzed the contract database administered by PWGSC to identify any contracts that had been frequently amended or where an amendment resulted in the contract exceeding dollar thresholds for its transaction type.

The departments and agencies included in our audit were

- Canada Revenue Agency:
- Canadian Heritage;
- Canada Investment and Savings;
- Department of Finance Canada;
- Department of Justice Canada;
- · Health Canada;
- Human Resources and Social Development Canada, including Service Canada; and
- · Public Health Agency of Canada.

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We assessed the role of two central agencies (the Privy Council Office and Treasury Board Secretariat) and the role of Public Works and Government Services Canada (PWGSC) in contracting for advertising and public opinion research on behalf of other government departments.

#### Criteria

We expected that the government would do the following:

- comply with authorities,
- · define departmental objectives to be achieved by advertising campaigns and public opinion research,
- exercise due diligence in approving individual projects,
- ensure due diligence in spending and accounting for the use of public funds,
- · use funds for the intended purposes, and
- monitor the implementation of the government's policy on advertising and public opinion research and achievement of policy objectives.

#### **Audit work completed**

Audit work for this chapter was substantially completed on 17 November 2006.

#### Audit team

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# Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation Response

#### Managing public opinion research activities in departments

1.70 Departments should ensure that the required notification of planned research is provided to Public Works and Government Services Canada prior to contacting research firms.

(1.57 - 1.69)

The Treasury Board Secretariat, the Privy Council Office, and Public Works and Government Services Canada (PWGSC) agree with the recommendation. PWGSC has unique expertise and can advise departments on the tendering and contracting process, and in the development of research plans, strategies, and tools.

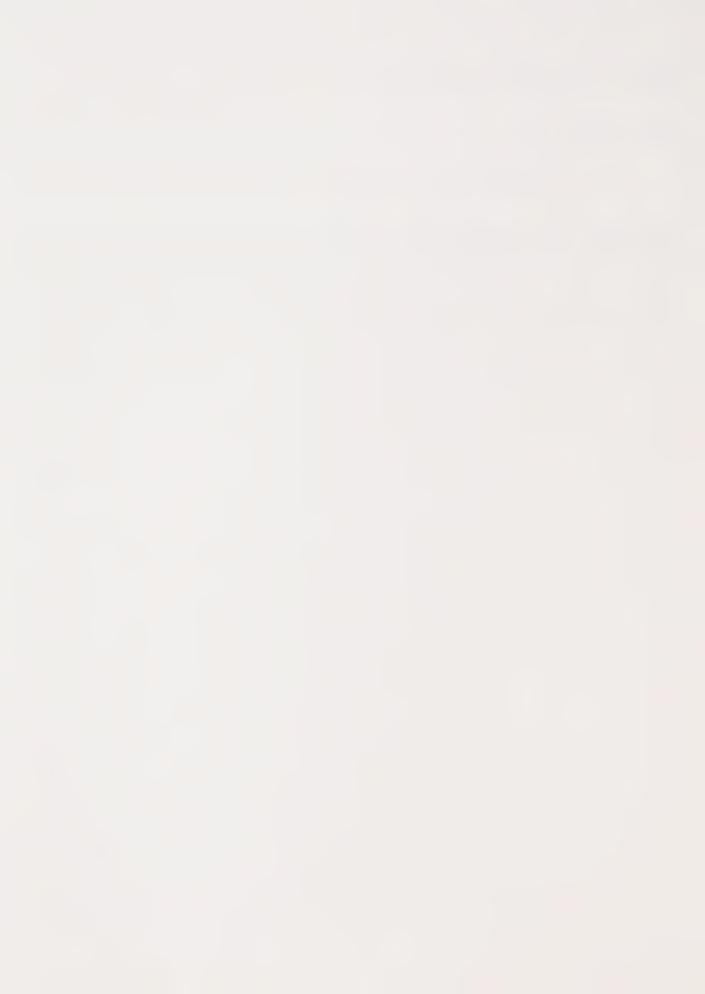
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# Report of the Auditor General of Canada to the House of Commons—February 2007

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2007



A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 2
The Conservation of Federal Built Heritage



Office of the Auditor General of Canada



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# 2007



A Status Report
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**FEBRUARY** 

Chapter 2
The Conservation of Federal Built Heritage



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Many and Many and

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# Chapter

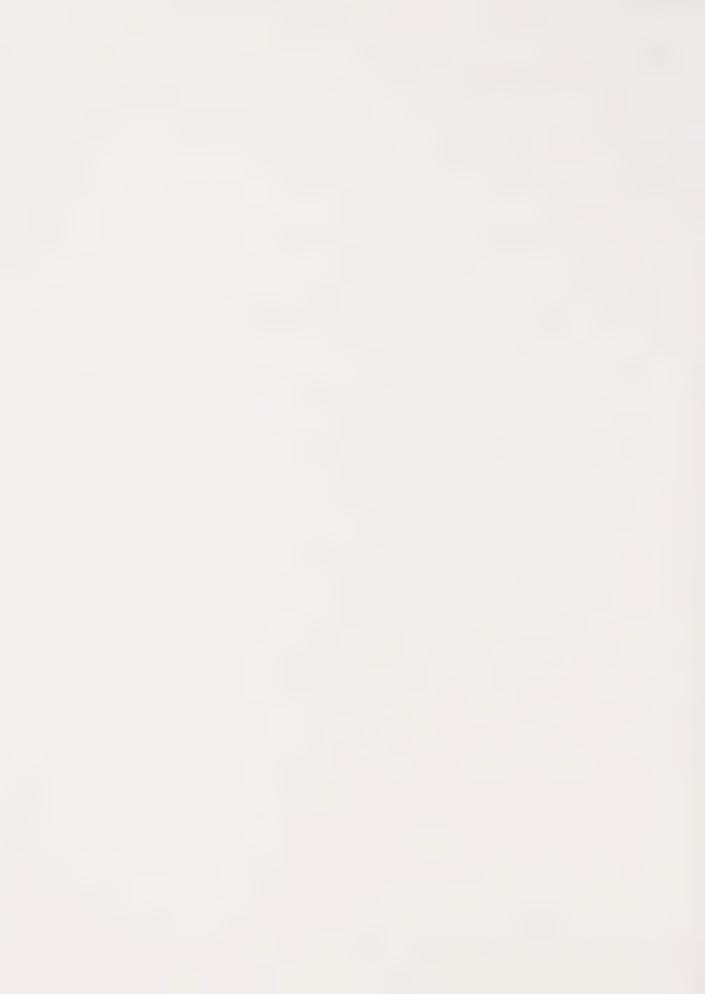
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The Conservation of Federal Built Heritage

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the $C$ and $A$ is the $A$ is the $A$ in the	11
we also draw upon the standards and practices of other disciplines.	

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# The Conservation of Federal Built Heritage

## **Main Points**

#### What we examined

The built heritage includes the sites, structures, and monuments that are recognized for their historic significance. Federal built heritage consists mainly of heritage buildings and national historic sites. These can include, for example, buildings, battlegrounds, forts, archaeological sites, canals, and historic districts.

We examined progress made by the Parks Canada Agency in addressing recommendations from our 2003 audit, when we reported that built heritage was at risk. We recommended that the Agency continue its efforts to strengthen the legal framework for protecting built heritage and implement its management framework for national historic sites as quickly as possible.

In this follow-up audit we broadened our examination to include not only Parks Canada Agency but also National Defence and Public Works and Government Services Canada. Together, the three organizations have custody of about 75 percent of national historic sites and heritage buildings owned by the federal government. We examined the specific conservation actions they have taken since our 2003 audit in a sample of 11 national historic sites and 8 classified federal heritage buildings located in six provinces.

### Why it's important

Federal built heritage includes such sites as the Cape Spear Lighthouse in St. John's, La Citadelle in Québec City, Fort Henry in Kingston, Cave and Basin in Banff, and the Admiral's Residence on the Esquimalt Naval Base on Vancouver Island. These places recall the lives and history of the men and women who built this country, and they foster awareness of how Canadian society evolved. They help us to better understand the present and prepare for the future. They contribute in important ways to Canadians' sense of belonging to their community. When important parts of Canada's built heritage are lost, future generations of Canadians are deprived of access to key moments of their shared history.

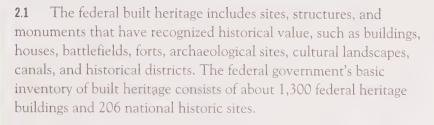
#### What we found

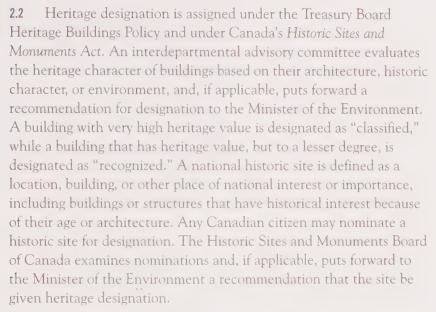
- Parks Canada Agency has made satisfactory progress in addressing our 2003 recommendations. However, conservation of heritage buildings and national historic sites that are in the custody of other federal organizations is at risk because of gaps in the Treasury Board Heritage Buildings Policy.
- Parks Canada Agency has developed a policy proposal to strengthen the legal framework for protecting federal built heritage. It has made progress in developing key documents for managing national historic sites. However, the Agency is behind in its schedule for completing its management plans for national historic sites. It has also taken steps to preserve the sites and structures that we reported to be in poor condition in 2003. The Agency has received additional capital funding to reinvest in its infrastructure, and has allocated part of that funding to the conservation of cultural resources at the national historic sites in its custody.
- The Treasury Board Heritage Buildings Policy offers limited protection to the built heritage in the custody of departments and agencies other than Parks Canada Agency. The Policy applies to heritage buildings only, not to national historic sites or other heritage elements such as archaeological sites, canals, and cultural landscapes. The Treasury Board Policy has no requirements for reporting on heritage conservation. As a result, little information is available on how well custodial departments are conserving the built heritage in their custody.
- The Policy, as it applies to custodial departments other than Parks Canada Agency, does not connect the designation of heritage buildings with their conservation and does not provide for a process to do so. Designation and conservation are separate functions. As a result, while there are a growing number of designated heritage buildings that require protection, there is no parallel growth in the financial capacity of custodial departments and agencies for conservation. These gaps in the Policy are obstacles to informed decision-making and priority setting for built heritage conservation.

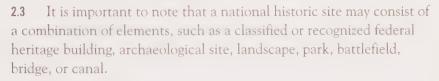
The departments and agencies have responded. The departments and agencies have agreed with each recommendation made in the chapter. Their detailed responses follow each recommendation throughout the Chapter.

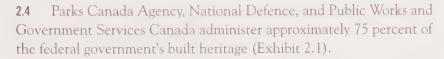
# Introduction

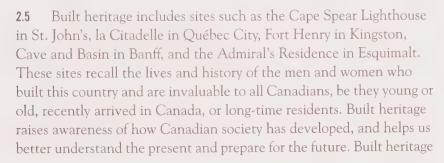
#### Federal built heritage













Fisgard Lighthouse, British Columbia

fosters a strong sense of belonging among Canadians. Built heritage is also a source of tourism revenue for communities, and it helps preserve the environment, by protecting existing structures. When important parts of Canada's built heritage are lost, future generations are barred from access to key aspects of Canadian history.

Exhibit 2.1 Three organizations have custody of some 75% of the federal heritage buildings and national historic sites owned by the federal government

Organizations	Federal Herr		
	Classified buildings	Recognized buildings	National historic sites
rank Carada Alemay	1.1.1	374	
Samuel Leses	5/2	<u>J</u> £7	.10
To Week and to see ment here as Carreta	301	147	100
•	150	=14+1	22
Total	270	1,074	206

Source Parks Canada Agency

#### Roles and responsibilities in the conservation of federal built heritage

Federal departments and agencies are subject to the Treasury Board Heritage Buildings Policy requirements for the conservation of federal heritage buildings. This policy is now part of the new Treasury Board Policy on Management of Real Property, which came into effect in November 2006. Among other things, this policy requires departments to take into account the heritage character of buildings that are in their custody, or that they are about to acquire, as part of all real property management operations involving these buildings. Parks Canada Agency's built heritage conservation obligations are greater because they stem from both the department's enabling act and the Treasury Board Heritage Buildings Policy. These requirements aim, among other things, to conserve the Agency's national historic sites as well as all other buildings and structures located on the sites. However, they do not cover other departments' and agencies' national historic sites. Parks Canada Agency provides consultation and advice on the heritage character of their buildings to organizations that request it.

Conservation—All actions or processes that

#### Context of departments and agencies

2.7 Federal departments must manage their real estate assets based on their mandate and operational objectives. They must also take the necessary measures when a property no longer meets their needs. Built heritage is part of these departments' real estate property and is used as a resource that allows them to implement their programs. Departments and agencies must therefore strike a fine balance between, on the one hand, their relatively clear imperatives for management that is economic, efficient, and effective and, on the other hand, their relatively general obligation to protect the built heritage. Parks Canada Agency works under very different circumstances, since it has a specific mandate to protect and promote the country's built heritage. The national historic sites in the Agency's custody are instrumental in the accomplishment of its mission, because they are public cultural sites where Canadians can enrich their knowledge of Canadian history.

#### What we found in 2003

- **2.8** Our 2003 Protection of Cultural Heritage audit showed that built heritage was at risk because of a marked decrease in financial resources allocated to heritage conservation in the previous years, and because of shortcomings in built heritage management mechanisms and in the legal protection framework.
- 2.9 We also reported that the heritage conservation framework had reached its limits and that a better balance had to be struck between departments' and agencies' conservation responsibilities and the resources made available to them.

#### Focus of the audit

- 2.10 The main objective of our audit was to determine whether the federal government had followed up on the recommendations on the conservation of built heritage that we made in Chapter 6 of our November 2003 report, Protection of Cultural Heritage in the Federal Government. It also aimed to identify the specific steps that the federal government had taken to maintain or re-establish the heritage condition of a sample of 11 national historic sites and 8 classified federal heritage buildings, across 6 provinces.
- 2.11 We carried out most of our examination work at Parks Canada Agency, at National Defence, and at Public Works and Government Services Canada. More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# Observations and Recommendations

### Parks Canada Agency

The Agency has developed a policy proposal to strengthen heritage conservation

2.12 In 2003, we had indicated that there was no legal protection for the national historic sites administered by departments and agencies other than that provided by Parks Canada Agency. At the time, the federal government was studying the possibility of strengthening its built heritage conservation policy. A strengthened conservation policy would have protected all historic sites located on federal lands, as well as archaeological resources found on federal lands or in federal waters. It would have extended the requirement to evaluate all federal buildings 40 years of age or older to federal agencies and Crown corporations that hold federal properties. The government would have been required to ensure that its classified buildings would be appropriately maintained and protected against harmful or destructive actions. All federal agencies would have been required to give priority consideration to using national historic sites and classified federal heritage buildings before opting to construct new buildings or lease offices. Our examination showed that Parks Canada Agency has made satisfactory progress in this area, since it has continued to work toward strengthening conservation policy (Exhibit 2.2). Despite these efforts, it had not yet succeeded in securing support for stronger conservation policy for built heritage. As a consequence, Canada's built heritage is still afforded only uncertain protection.

Exhibit 2.2 Progress in addressing our principal recommendations on the conservation of built heritage

Auditor General's November 2003 Report, Chapter 6		
Recommendation	Progress	
The Environment Department (Canadian Heritage in 2003), in collaboration with the Parks Canada Agency, should continue its efforts to strengthen the legal framework to protect built heritage (paragraph 6.41).	•	
The Parks Canada Agency should implement its management structure for national historic sites as soon as possible (paragraph 6.42).	•	

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Funding to protect national historic sites has increased

2.13 In 2003, we noted a widening gap between conservation needs and the financial resources available for conservation. In the 2005 budget, the government allocated an additional \$209 million to Parks Canada Agency to improve and maintain its visitor facilities, renovate its infrastructures, and restore a number of national historic sites. These additional funds will enable Parks Canada Agency to double its capital budget in the next five years. We found that the Agency had allocated part of its additional funding to the conservation of cultural resources located in those national historic sites that were in its custody.

#### The Agency has acted to conserve sites found to be in poor condition in 2003

- 2.14 We noted in our 2003 audit that Parks Canada Agency, after the evaluation of several national historic sites, had concluded that certain national historic sites were in poor condition. This meant that, unless conservation work was carried out in the next two years, these sites would have to be closed, and elements symbolizing their historic significance would be lost.
- 2.15 Examination of a sample of national historic sites and analysis of Parks Canada Agency data showed that the Agency had taken the necessary action to prevent the deterioration of some of its cultural resources. At the Carillon Canal, Parks Canada Agency had carried out work to stabilize the walls of the canal. At Fort Henry, Parks Canada Agency had undertaken several conservation work projects. However, certain heritage buildings at these historic sites have still not been restored and remain closed to the public. The Superintendent's House at Carillon Canal is a notable example.

Carillon Canal. Carillon Canal is part of Canada's national system of historic canals. Located on the Ottawa River, the Canal commemorates the role played by this navigable waterway during the 19th and the 20th centuries. The 2002 Parks Canada Agency commemorative integrity evaluation of the site indicated that the resources directly motivating the Canal's designation as a national historic site, most notably the old derivation canal built between 1829 and 1833, had suffered serious deterioration. Parks Canada Agency has since taken steps to stabilize the walls of the Canal. However, other heritage resources on this national historic site require extensive conservation work. The Superintendent's House, which represents one of the best preserved vestiges from the period of the first Carillon Canal, is currently closed to the public for safety reasons.

**Fort Henry.** Located at the junction of the Rideau Canal, the St. Lawrence River, and Lake Ontario, Fort Henry is an important component of an extensive system of defensive works built by the British army in the first half of the 19th century to defend Point Henry. Now a designated national historic site, it includes 14 buildings, 9 of which are classified or recognized, as well as archaeological sites, important

landscape features, and historic objects. Parks Canada Agency has owned the site since 1999, after the property was transferred from National Defence. The site is run by a third party, Ontario's St. Lawrence Parks Commission, pursuant to an agreement dating back to 1965. The Agency's 2002 Commemorative Integrity Evaluation showed that the resources directly motivating the designation of the Fort as a national historic site had suffered serious deterioration. Since that time, the federal government and the St. Lawrence Parks Commission have invested \$10 million and \$5 million respectively in conservation work, such as the repointing of the brick walls in the entrance to the Fort, the restoration of the advanced battery roof, and waterproofing of the redoubt. However, based on an assessment carried out in 2000 by Public Works and Government Services Canada, further work costing over \$40 million is required to stabilize Fort Henry.

The Agency has continued to develop its key management tools for national historic sites

2.16 The infrastructure for managing national historic sites includes management plan, and the evaluation of the commemorative integrity of national historic sites. The commemorative integrity statement identifies the cultural resources to be preserved and the conditions to be met to prevent their deterioration. It also determines how to effectively communicate their national historic importance. The management plan, prepared every five years following consultation strategies and steps for protecting the commemorative integrity of the site. The evaluation provides information on the state of informed decision-making, helping to establish the Agency's

2.17 In 2003, we noted a delay in the Agency's implementation of its management infrastructure for national historic sites. The Agency's objective was to finish its commemorative integrity statements and management plans by December 2006 at the latest. It had also committed to evaluating, between 2001 and 2011, the commemorative integrity of all the national historic sites in its custody. We found that although some progress had been made, the department's progress toward completion of its management plans is still seriously behind schedule. As of 31 October 2006, only 40 percent of the national historic sites managed by the Agency had such a plan in place. At this rate, it is unlikely that the Agency will be able to meet its commitment to have a management plan in place for each of its sites by 31 December 2006. However, the Agency has completed a commemorative integrity statement for 90 percent of the national historic sites in its custody. Between 2003-04 and 2005-06, the

Agency completed 46 additional evaluations, for a total of 77 evaluations. At this rate, the Agency anticipates meeting its target by 2011. Overall, we consider the progress satisfactory (Exhibit 2.2).

2.18 The 46 new evaluations by Parks Canada Agency continue to show risks to built heritage. The cultural resources of six national historic sites were in poor condition and would require conservation work within the next two years. The cultural resources of 24 other historic sites were in a passable state and will require conservation work within the next three to five years. The remaining 16 sites were in good condition. Since 2005, Parks Canada Agency has been using a follow-up mechanism to track the interventions that have been carried out.

Intervention—Any action, other than demolition or destruction, that results in a physical change to an element of a historic place. (Parks Canada)

# The heritage conservation regime for departments

#### Built heritage conservation interventions have been sporadic

2.19 Our examination of a sample of heritage buildings showed that over the last five years, departments had intervened only sporadically to preserve the heritage character of these buildings, and to comply with health, safety, and accessibility standards. For example, the windows were replaced at the Admiralty House in Halifax, an access ramp was installed at the Canadian Forces Museum in Québec City, and the garden wall of the Old Kingston Post Office was restored.



Halifax Armoury, Nova Scotia

Halifax Armoury. This heritage building, which is a designated national historic site, belongs to National Defence. It is one of the finest specimens of training and recruitment centres built for the militia at the end of the 19th century. This building is notable for its size and functionality, its enormous exercise room, and its rough red sandstone walls. In 1996, faced with deterioration of the armoury's external envelope, National Defence commissioned a study that estimated the costs of restoration at more than \$7 million. At present, National Defence is considering whether to invest in the restoration of the armoury or to allocate these funds to other priorities.

Cap-aux-Diamants Redoubt. Built between 1693 and 1694, the Redoubt is currently one of the oldest vestiges of Québec City's defence system. It was designated as a classified heritage building in 1989 because of its historical importance for Canadian military architecture. The Redoubt is also located inside Québec City's La Citadelle, a national historic site administered by National Defence. It is a building connected to the residence of the Governor General of Canada and located within the citadel's fortified walls. It is managed by Public Works and Government Services Canada. The Redoubt has not been used for many years and remains inaccessible to La Citadelle visitors, since it has been judged not to meet safety standards. Conservation work on the Redoubt was last carried out in 1997.

2.20 We examined how the departments plan and program their interventions. We found that they have management systems in place for administering real estate property portfolios. These systems make it possible to assess the various components of a building, determine its remaining useful lifespan, and recommend repairs or replacement

projects. Although very useful for real property planning, these systems provide little information on the general condition of buildings, and include little or no information on the heritage characteristics of buildings. We found that the sporadic nature of these conservation interventions was due to the fact that they had to compete directly with other interventions designed to support the operational needs of departments. Federal heritage buildings represent only about three percent of the 40,000 federally owned buildings.

#### Built heritage conservation policy has weaknesses

2.21 Requirements of the Treasury Board Heritage Buildings Policy. The government of Canada has a policy of protecting the heritage character of federal buildings in all transactions involving the acquisition, exploitation, and disposal of buildings. To this end, departments with custody of heritage buildings must administer them in such a way as to preserve their heritage character throughout their lifespan. Departments are required to submit all buildings 40 years of age or older for evaluation by Parks Canada Agency as to their heritage designation. This must be done before buildings are acquired, modified, demolished, or sold. Departments must also consult Parks Canada Agency before selling or carrying out work that could affect the heritage character of a classified building. When departments no longer use a building, they "must make best efforts to find appropriate alternative uses." The departments assume the responsibility for all decisions that will affect the heritage value of a classified or recognized building in their custody.

2.22 Parks Canada Agency created the Federal Heritage Buildings Review Office (FHBRO), which is responsible for evaluating the heritage character of government buildings 40 years of age or older, for providing advice on questions of conservation to departments and agencies that request it, and for maintaining a federal heritage building registry. FHBRO bases its advice on the heritage character statement and on *Standards and Guidelines for the Conservation of Historic Places in Canada*. On the recommendation of an interdepartmental committee, the Minister of the Environment approves the designation of federal buildings as buildings with heritage character. Since 1 November 2006, these obligations have been included in the Treasury Board's new Policy on Management of Real Property, which includes a condensed version of the Treasury Board Heritage Buildings Policy.

2.23 The Treasury Board Policy has limited coverage. The Treasury Board Heritage Buildings Policy offers protection only to buildings, and not to the national historic sites owned by federal departments or

Heritage value—The aesthetic historic, scientific, cultural, social, or spiritual importance or significance for past, present, or future generations. The heritage value of a historic place is embodied in its materials forms, location, spatial configurations, uses, and cultural associations or meanings (Parks Canada)



Park located between the Kingston Customs House and the Kingston Post Office

agencies. It thus offers no protection to the other elements that may be included on a national historic site, such as archaeological sites, canals, structures, or cultural landscapes. The case of two national historic sites, the Kingston Customs House and the Old Kingston Post Office, is a good illustration of this situation. These two heritage buildings are linked by a park that is an integral part of this national historic site. However, in accordance with the Treasury Board Heritage Buildings Policy, Public Works and Government Services Canada does not have to consult FHBRO before undertaking conservation work on the park.

- 2.24 Some heritage sites we visited included archaeological sites. Those belonging to Parks Canada Agency benefit from administrative protection, since the Agency has adopted guidelines on management of archaeological sites. Sites owned by other departments do not benefit from the same level of protection. There is no existing conservation program aiming to protect archaeological sites. Moreover, the federal government is unable to give the exact number of its archaeological sites, the number of associated collections, or the number of objects in these collections. The protection of these historic sites is therefore at risk.
- 2.25 Conservation policy is ambiguous. The Treasury Board Policy also contains ambiguities that may be detrimental to the protection of built heritage. The requirement to evaluate the heritage value of buildings that are 40 years of age or older before their acquisition, modification, demolition, or sale can be interpreted in two ways. Some departments can have the heritage character of their buildings evaluated when the buildings reach 40 years of age, while other departments can request such an evaluation only if they plan an acquisition, modification, demolition, or sale. In the latter case, buildings with heritage potential could lose their character if they were not designated in a timely manner. The new Treasury Board Policy on Management of Real Property now requires that departments evaluate their buildings when they reach 40 years of age.
- 2.26 Another ambiguity exists where the heritage building disposal process is concerned. The Treasury Board Heritage Buildings Policy allows federal heritage buildings to be disposed of, even if they are classified or recognized. According to FHBRO, 4 buildings designated as classified and 38 buildings designated as recognized were sold or demolished between 2004–05 and 2005–06. However, custodian departments must justify their decision to dispose of such buildings and must "make their best effort to find a new owner or an alternative use for them" prior to disposing of them, by looking first internally, then at other departments, and finally at organizations outside the federal

administration. We note that the expression "best effort" is not defined clearly enough to foster consistent application of the policy by federal government managers.

2.27 There is no reporting requirement. Departments do not prepare any reports on built heritage conservation activities that they have undertaken. Nor do they report on the results obtained in this area. FHBRO has no further information on results achieved. We found that the Treasury Board Heritage Buildings Policy sets no reporting requirements for heritage management. Such information on built heritage would include objectives pursued, conservation measures taken, expenses incurred for conservation, new designations, the latest disposals, and future projects. This information could be made available on department websites. Considering that a policy to protect heritage buildings has existed for over twenty years, we expected that more performance information about this policy would have been gathered about the performance of this policy.

#### Department application of Treasury Board Heritage Buildings Policy is inconsistent

2.28 The Federal Heritage Buildings Review Office received 425 requests for reviews of proposed interventions from federal organizations during the last four years (Exhibit 2.3). Requests from Parks Canada Agency, National Defence, and Public Works and Government Services Canada accounted for about 77 percent of this total, or 329 requests.

Exhibit 2.3 The Federal Heritage Buildings Review Office received most of its intervention review requests from three organizations

Organizations	2002-03	2003-04	2004-05	2005-06
rune dha te Alema	3		31	11
State traff (1986) in			31	36
Public Works and Government Services Canada	41	4.7	53	47
y*their	2.1	20	27	19
Total	85	95	132	113

Source: Parks Canada Agency

**2.29** Our examination of the work done on the classified buildings in our sample showed that Parks Canada Agency, National Defence, and Public Works and Government Services Canada had generally consulted FHBRO before carrying out their interventions. However,

representatives of departments have told us that a number of interventions that involved work on classified buildings had not been submitted beforehand to the Review Office. We also learned that Parks Canada Agency had conducted a number of consultations with its own experts to plan certain interventions, but that these had not been recorded in the FHBRO information system. These deficiencies reduce the effectiveness of the advisory function of the Review Office on built heritage. They also reduce the effectiveness of Treasury Board policy on heritage buildings.

2.30 To explain the failure to use the expertise of the Review Office, the three entities that we audited cited factors such as their own expertise in conservation, the similarity of interventions carried out to other interventions previously approved by the Review Office, the need to act quickly in order to use funds that had become available, and the fact that some interventions were considered maintenance work with no impact on the heritage character of buildings. However, we found that simple maintenance activities can alter the heritage character of real property, and that it is necessary to pursue training activities for employees of custodian organizations.

#### Priorities for conservation must be established and choices made

2.31 The Treasury Board Heritage Buildings Policy does not combine designation with conservation of federal heritage buildings, and does not prescribe a process to do so. Instead, designation and conservation functions are kept separate. As a result, the growing number of federal heritage buildings is not necessarily accompanied by a growth in the custodial departments' and agencies' financial capacity to conserve these buildings. Designation of federal heritage buildings is passive, since it is based on the requirement that departments have buildings evaluated when they are over 40 years old. An interdepartmental committee examines all evaluation files according to criteria that are established and known to all. However, the committee only responds to requests for evaluations; it has no mandate to establish objectives and priorities for designation. Organizations have little control over designation and the number of federal heritage buildings in their custody. They have no choice but to accept designation. Although the task of conservation falls to the organizations, because they have no legal obligation for conservation, they cannot easily obtain funding for conservation interventions. In the absence of precise objectives and reporting requirements, departments and agencies have little motivation to conserve their heritage sites.

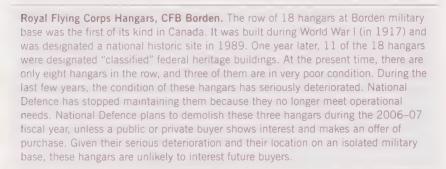
2.32 These weaknesses affect government's capacity to make informed choices and to set priorities for conservation. The data available thus show that conservation of federal built heritage is at considerable risk. Exhibit 2.4 shows that the number of designated heritage buildings and sites has been increasing. Since 2002–03, 11 federal buildings have been designated as "classified," and 117 buildings have been designated as "recognized." The number of designated built heritage sites will probably rise in the coming years. For example, National Defence alone has approximately 8000 buildings that are 40 years of age or older, and that need to be evaluated by FHBRO. This figure clearly shows the need to make judicious choices in designating federal heritage buildings and the need to have appropriate means to ensure conservation.

Exhibit 2.4 The number of designated federal heritage buildings has risen yearly

Evaluated buildings	2002 -03	2003-04	2004-05	2005-06
Total number evaluated	514	318	4000	4 '6
Number designated as "classified"	3	0	7	1
Number designated as "recognized"	27	11	51	28

Source Parks Canada Agency

2.33 Choices must also be made at the end of the life cycle of heritage buildings when a department no longer has a use for them. Changes in departments' mandate and their real property requirements are likely to increase the number of heritage buildings slated for disposal by departments. The decision to dispose of a heritage building is never easy for departments focused on fulfilling their legislative mandate, when that mandate is not heritage conservation.



2.34 The Treasury Board Heritage Buildings Policy was introduced in the mid-eighties, when it was important to raise departments' awareness of heritage protection. The steady growth in the number of



Royal Flying Corps Hangars, CFB Borden

designated heritage buildings and sites, changes in mandates and real estate needs of departments, and the need to better manage real estate is affecting the capacity of these agencies, to meet their heritage conservation responsibilities. The Treasury Board Heritage Buildings Policy dates from the eighties and is no longer in line with today's reality. The new Treasury Board Policy on Real Property Management, which came into effect in November 2006, and which includes a condensed version of the Treasury Board Heritage Buildings Policy, does not address the situation.

- **2.35** Recommendation. The government should strengthen its conservation regime for built heritage by
  - establishing overall objectives for conservation of built heritage,
  - setting priorities for conservation and monitoring organizations activities,
  - covering all elements of built heritage of custodian departments,
  - combining the functions of designation and conservation, and
  - reporting to Parliament on the results of conservation activities.

The government has responded. The government agrees that its conservation regime for built heritage should be strengthened.

Parks Canada Agency is responsible for built heritage programs and historic places in Canada. The Agency has developed a policy proposal that would address this recommendation. The proposal includes legislative requirements, including statutory protection of national historic sites, federal heritage buildings and archaeological resources on federal land, and would provide a mechanism to link designation with financial resources required for conservation. Overall objectives and means of reporting on those objectives would also be clearer.

The new Policy on Management of Real Property, approved in June 2006 by the Treasury Board, adopts an integrated approach to the management of federal real property and requires that the heritage character of federal buildings be respected and conserved throughout their life cycle. It emphasizes the accountability of Deputy Ministers with respect to the management of real property and requires departments to measure and document performance. Accountability for conservation must rest with the custodian department and conservation plans should be integrated as part of the department's overall strategic investment planning process. To support implementation of the policy, a Managers' Handbook for real property is expected to be available by June 2007. The Policy will be monitored

and updated as appropriate to reflect developments related to Parks Canada new legislation.

**2.36** Recommendation. Federal departments and agencies should set conservation objectives for built heritage for themselves, and should let Parliament know that performance information is accessible.

The Department of National Defence. The Department of National Defence and the Canadian Forces are committed to working with the Treasury Board Secretariat, Parks Canada, Public Works and Government Services Canada (PWGSC), and others to implement a more integrated approach to managing and reporting on or built heritage portfolio.

Parks Canada Agency has responded. Parks Canada Agency accepts the Auditor General's recommendation. The Agency has set conservation objectives and reports on these to Parliament. The Agency's objectives include ensuring the commemorative integrity of national historic sites, respect for and conservation of the heritage character of federal heritage buildings, and appropriate management of archaeological sites and other cultural resources.

The Agency's management and monitoring systems include preparation of management plans, commemorative integrity statements, and commemorative integrity evaluations for all national historic sites. The Agency is on track with each of these three management tools, having completed management plans for 87 percent of sites by the December 2006 deadline. Parks Canada Agency continues to follow up on the results of the commemorative integrity evaluations, to ensure that actions are taken to address shortcomings.

The Agency also sets goals for the management of cultural resources in its care outside national historic sites. It is currently working on more complete and cohesive systems to monitor and report on the condition of these resources, including federal heritage buildings.

All of this information is reported annually to Parliament in the Parks Canada Agency performance report.

Public Works and Government Services Canada has responded. The Department agrees with this recommendation and will collaborate with the Treasury Board of Canada Secretariat to establish an appropriate level of reporting to Parliament.

The Department will also continue its ongoing efforts to improve its compliance to the Treasury Board Real Property Administration Policy

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as it relates to federal built heritage. PWGSC's Real Property Branch has already made progress in ensuring a consistent application of the policy and establishing the capacity to report on its compliance activities.

The Treasury Board Secretariat has responded. The Treasury Board Secretariat agrees that departments and agencies should set their conservation objectives. Parks Canada Agency reports on its conservation objectives and activities to Parliament. Other departments may decide to make the results of their conservation activities publicly available, and when they constitute a significant element of the core mandate and business of the department or agency, to include such information in Departmental Performance Reports that are tabled in Parliament. Treasury Board Secretariat will continue to provide to departments general guidance on reporting to Parliament.

### Conclusion

2.37 Parks Canada Agency took satisfactory measures to follow up on our 2003 recommendations concerning the legal protection framework for built heritage and the management infrastructure for national historic sites. It has developed policy proposals to strengthen conservation, has completed and approved several management plans for national historic sites, and has carried out several evaluations of historic sites. It has carried out interventions needed to preserve sites and buildings, such as Fort Henry and the Carillon Canal, that were in poor condition during our 2003 audit. Parks Canada has allocated part of the additional capital funding it has received to the conservation of cultural resources located on historic sites in its custody.

2.38 These conservation interventions are not sufficient to guarantee the conservation of built heritage placed under the custody of departments. The Treasury Board Heritage Buildings Policy offers only limited protection to federal built heritage. It affords protection to federal heritage buildings only. It does not connect the designation of heritage buildings with their conservation. It facilitates neither informed decision making nor the setting of priorities for conservation.

### About the Audit

#### **Objectives**

The objective of our audit was to determine the measures that the federal government had put in place to improve the protection of built heritage in order to follow up on the recommendations concerning built heritage that we made in Chapter 6 of our November 2003 report, Protection of Cultural Heritage in the Federal Government. It also sought to determine the specific protection interventions the federal government had carried out to maintain or restore heritage status, based on a sample of national historic sites and federal heritage buildings.

#### Scope and approach

Our audit covered the measures that the federal government has taken following the recommendations on the protection of built heritage made in our November 2003 chapter.

It also covered the management aspect of the conservation measures carried out on a sample of 11 national historic sites and 8 classified federal heritage buildings. We selected our sample to reflect the diversity of historic sites and heritage buildings managed by the federal government, and to better understand the departments' conservation responsibilities for these sites and buildings. We conducted our examination work mainly at Parks Canada Agency, National Defence, and Public Works and Government Services Canada.

Our examination did not include the project to restore Parliament Hill buildings currently being carried out by Public Works and Government Services Canada, since this work entails several types of intervention other than those directly related to heritage conservation. Our examination also did not include conservation activities by Crown corporations that have custody of historic places, because they are subject to special examination under the *Financial Administration Act*. We did not examine the departments' real property management. We limited our audit to an examination of the management mechanisms that make it possible to ensure the conservation of the built heritage under their custody.

#### Heritage sites examined during our audit

	Name	Analysed under*	Province (City)
Parks	Canada Agency		
1	Cabot Tower	FHB	Newfoundland & Labrador (St. John's)
2	Cape Spear Lighthouse	FHB	Newfoundland & Labrador (St. John's)
3	Carillon Canal	NHS	Quebec (Carillon)
4	Fort Henry	NHS	Ontario (Kingston)
5	Cave and Basin	NHS	Alberta (Banff)
6	Jasper Park Information Centre	NHS	Alberta (Jasper)
7	Gun Emplacement and Magazine, Lower Battery (Fort Rodd Hill)	FHB	British Columbia (Colwood)
8	Fisgard Lighthouse	FHB .	British Columbia (Colwood)
9	Skoki Ski Lodge	NHS	Alberta (Banff)
10	Twin Falls Tea House	NHS	British Columbia (Yoho Park)
Nation	ial Defence		
1	Admiralty House	NHS	Nova Scotia (Halifax)
2	Halifax Armoury	NHS	Nova Scotia (Halifax)
3	Armed Forces Museum, La Citadelle (Québec City)	FHB	Quebec (Québec City)
4	Admiral's Residence	FHB	British Columbia (Esquimalt)
5	Royal Flying Corps Hangars, CFB Borden	· NHS	Ontario (Borden)
Public	Works and Government Services Canada		
1	Kingston Customs House	NHS	Ontario (Kingston)
2	Old Kingston Post Office	NHS	Ontario (Kingston)
3	Louis St-Laurent Building	FHB	Quebec (Québec City)
4	Cap-aux-Diamants Redoubt	FHB	Quebec (Québec City)

NHS: National historic site

FHB: Federal heritage building

#### Criteria

In addition to the audit criteria for our November 2003 chapter on built heritage, we used the following criteria to assess management of conservation measures carried out on our sample of national historic sites and federal heritage buildings.

<sup>\*</sup> Some sites may be designated as both national historic sites and classified federal heritage buildings.

#### We expected that

- there would be a statement of the heritage character (federal heritage building) or a commemorative. objective (national historic site) for each heritage site;
- the organization responsible for the historic place would have information on its state of conservation;
- · the organization responsible for the historic place would have established a conservation plan, would have allocated the necessary resources for carrying out the plan, and would monitor conservation measures:
- the conservation measures taken by the organization responsible for the historic place would respect existing policies and the Standards and Guidelines for the Conservation of Historic Places in Canada.

Our criteria were derived from the following sources:

- Treasury Bound Herrary Emillions P. Inc., in careet 1998s to October 2006. A condensed version of this policy was included in the new Treasury Board Policy on Management of Real Property, which came into effect November 2006.
- Treasury Board Policy on the Disposal of Surplus Real Property, in effect since 1 July 2001.
- Guide to the Monitoring of Real Property Management.
- · Standards and Guidelines for the Conservation of Historic Places in Canada.
- Parks Canada Guiding Principles and Operational Policies.

#### Audit work completed

Audit work for this chapter was substantially completed in October 2006.

#### Audit team

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Principal: Aline Vienneau

Lucie Després Kareem El-Onsi Audrey Garneau Julie Hudon Lysanne Ladouceur Patrick Polan

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll free).

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response The heritage conservation regime for departments 2.35 The government should The government has responded. The government agrees strengthen its conservation regime for that its conservation regime for built heritage should built heritage by be strengthened. • establishing overall objectives for Parks Canada Agency is responsible for built heritage programs conservation of built heritage, and historic places in Canada. The Agency has developed a policy proposal that would address this recommendation. The setting priorities for conservation and proposal includes legislative requirements, including statutory monitoring organizations activities, protection of national historic sites, federal heritage buildings • covering all elements of built heritage and archaeological resources on federal land, and would provide a mechanism to link designation with financial resources of custodian departments, required for conservation. Overall objectives and means of • combining the functions of reporting on those objectives would also be clearer. designation and conservation, and The new Policy on Management of Real Property, approved in • reporting to Parliament on the results June 2006 by the Treasury Board, adopts an integrated approach of conservation activities. to the management of federal real property and requires that the (2.19-2.34)heritage character of federal buildings be respected and conserved throughout their life cycle. It emphasizes the accountability of Deputy Ministers with respect to the management of real property and requires departments to measure and document performance. Accountability for conservation must rest with the custodian department and conservation plans should be integrated as part of the department's overall strategic investment planning process. To support implementation of the policy, a Managers' Handbook for real property is expected to be available by June 2007. The Policy will be monitored and updated as appropriate to reflect developments related to Parks Canada new legislation.

#### Recommendation

Federal departments and agencies should set conservation objectives for built heritage for themselves, and should let Parliament know that performance information is accessible. (2.19-2.34)

#### Response

The Department of National Defence. The Department of National Defence and the Canadian Forces are committed to working with the Treasury Board Secretariat, Parks Canada, Public Works and Government Services Canada (PWGSC), and others to implement a more integrated approach to managing and reporting on or built heritage portfolio.

Parks Canada Agency has responded. Parks Canada Agency accepts the Auditor General's recommendation. The Agency has set conservation objectives and reports on these to Parliament. The Agency's objectives include ensuring the commemorative integrity of national historic sites, respect for and conservation of the heritage character of federal heritage buildings, and appropriate management of archaeological sites and other cultural resources.

The Agency's management and monitoring systems include preparation of management plans, commemorative integrity statements, and commemorative integrity evaluations for all national historic sites. The Agency is on track with each of these three management tools, having completed management plans for 87 percent of sites by the December 2006 deadline. The Agency continues to follow up on the results of the commemorative integrity evaluations, to ensure that actions are taken to address shortcomings.

The Agency also sets goals for the management of cultural resources in its care outside national historic sites. It is currently working on more complete and cohesive systems to monitor and report on the condition of these resources, including federal heritage buildings.

All of this information is reported annually to Parliament in the Parks Canada Agency performance report.

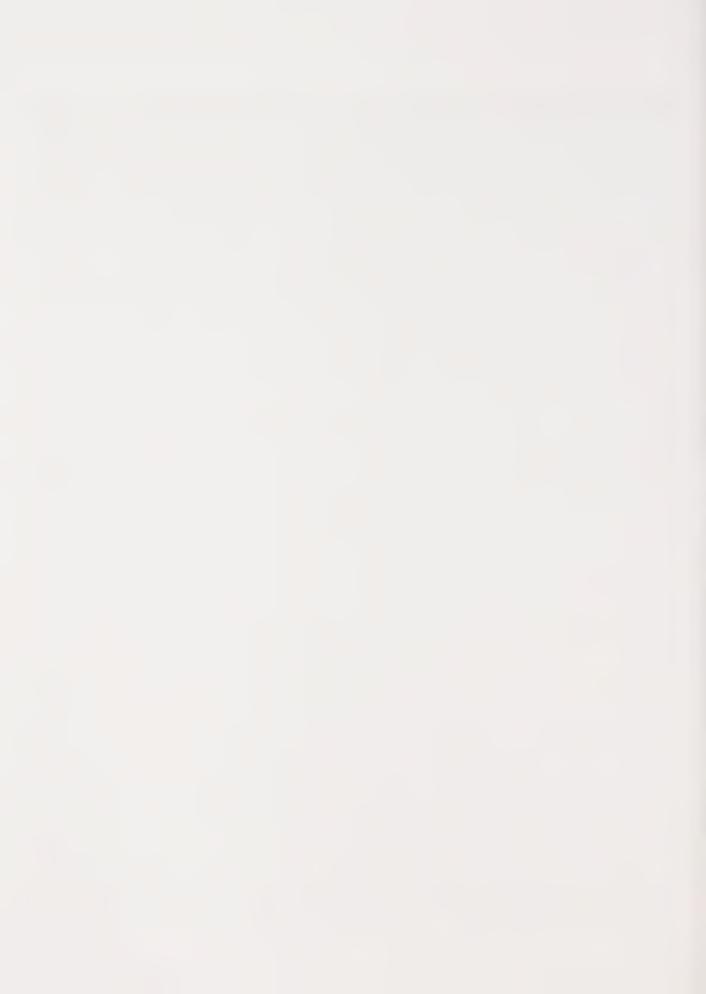
Public Works and Government Services Canada has responded. The Department agrees with this recommendation and will collaborate with the Treasury Board of Canada Secretariat to establish an appropriate level of reporting to Parliament.

The Department will also continue its ongoing efforts to improve its compliance to the Treasury Board Real Property Administration Policy as it relates to federal built heritage. PWGSC's Real Property Branch has already made progress in ensuring a consistent application of the policy and establishing the capacity to report on its compliance activities.

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Recommendation Response

The Treasury Board Secretariat has responded. The Treasury Board Secretariat agrees that departments and agencies should set their conservation objectives. Parks Canada Agency reports on its conservation objectives and activities to Parliament. Other departments may decide to make the results of their conservation activities publicly available, and when they constitute a significant element of the core mandate and business of the department or agency, to include such information in Departmental Performance Reports that are tabled in Parliament. Treasury Board Secretariat will continue to provide to departments general guidance on reporting to Parliament.



# Report of the Auditor General of Canada to the House of Commons—February 2007

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Chapter 7	International Taxation—Canada Revenue Agency

A Message from the Auditor General of Canada









A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 3
Management of Leading-Edge Research—
National Research Council Canada





# 2007



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# Chapter 3 Management of Leading-Edge Research— National Research Council Canada

The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

3

Management of Leading-Edge Research National Research Council Canada

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# Management of Leading-Edge Research

# National Research Council Canada

## **Main Points**

#### What we examined

The National Research Council Canada (NRC) is the federal government's most comprehensive scientific and industrial research organization. It reports to Parliament through the Minister of Industry and is governed by a Council of 22 federal appointees, including the President.

We examined the progress made by the NRC in addressing the recommendations from our 2004 audit, when we reported problems related to the NRC's corporate governance, mechanisms for setting strategic direction, management of research projects and human resources, and performance measurement and reporting.

#### Why it's important

Through its science and technology activities in areas such as aerospace, biotechnology, and information and communication technologies, the National Research Council makes an important contribution to the fulfillment of the government's responsibilities in areas such as health and safety, protection of the environment, communications, and economic development. The NRC also supports the efforts of Canadian small- and medium-sized enterprises to improve their technological competitiveness and innovative capability.

The NRC employs about 4,000 scientists and support staff in 18 research institutes and 2 technology centres across Canada. Its annual spending is about \$800 million. It is essential that the NRC be able to recruit and retain the best scientists and researchers and manage its research activities strategically to ensure that its work remains relevant for Canada's future research needs in science and technology.

#### What we found

The National Research Council has made satisfactory progress
overall since 2004 in responding to our recommendations. It has
addressed the recommendations in the area of corporate governance,
corporate strategic direction, and human resources management.
However, progress is unsatisfactory in the documenting of key
decisions at the institute level and in performance measurement and
reporting.

- The NRC's Council has approved a new role for itself, one that is better aligned with the NRC's mandate under the *National Research Council Act*. Nevertheless, some members said their role was still not clear to them. The Council has begun to exercise its revised role by approving or recommending for approval several key policy and budgetary proposals since June 2005. It has also established two new standing committees—the Audit, Evaluation and Risk Management Committee and the Human Resources Committee. However, at the time of our audit, about half of the positions on the Council were vacant, despite the NRC's efforts to have the government appoint additional Council members. The number of vacancies hampers the ability of the Council and its standing committees to function effectively.
- The NRC has put in place new management systems and processes to implement a new corporate strategy, the NRC Strategy, released in May 2006. Development of its first corporate business plan, currently planned by March 2007, awaits the completion of critical milestones scheduled for the first year of the NRC Strategy.
- The NRC follows several good practices in selecting and monitoring research projects, but essential management information on projects is not always easily or uniformly retrievable. Although most institutes have priorities for selecting, reviewing, and terminating research projects, documentation such as rating sheets or rankings is often unavailable or incomplete. Peer review and outside input are sometimes only implicit.
- While the NRC has created a plan and established key positions for human resources management, it has not set strategic priorities for human resources management and linked them to key functions such as recruitment, staffing, and succession planning. This is a task scheduled for completion as part of implementing the NRC Strategy.
- The NRC has not improved its performance reports to Parliament.

The National Research Council Canada has responded. The National Research Council Canada has accepted all of the Auditor General's recommendations and has committed to take action. Its responses follow the recommendations throughout the chapter.

### Introduction

- **3.1** The National Research Council Canada (NRC) is the government's most comprehensive research organization. The Parliament of Canada established the organization in 1916 under the *National Research Council Act* to "... undertake, assist or promote scientific and industrial research . . ." that is in Canada's national interest.
- 3.2 The majority of the NRC's annual expenditures of about \$800 million—80 percent—comes from parliamentary appropriations. The NRC generates the remainder of the revenue itself. It employs about 4,000 scientists and support staff who work in the NRC's 18 research institutes and 2 technology centres across Canada. The NRC also attracts approximately 1,200 guest workers from Canadian and foreign universities and research and development organizations. This reflects the organization's philosophy of collaboration and partnership.
- 3.3 Through its Canada Institute for Scientific and Technical Information, the NRC disseminates information about science, technology, and medicine to researchers and innovators in fields of strategic importance; such as biotechnology, biosciences, molecular sciences, fuel-cell technology, and e-business. Through the Industrial Research Assistance Program, the NRC helps small- and medium-sized Canadian enterprises to improve their technological competitiveness and innovative capability. In the process, the NRC helps to build local and national economic systems and technology clusters.

#### What we found in 2004

- 3.4 In our March 2004 Report, we examined several major components of the NRC's management systems and practices, including the role of its Council. The Council, which consists of 22 members including the President, is discussed in greater detail at the beginning of the section on corporate governance. We noted that the Council was not fulfilling its duties to control and direct its work through the President, as the *National Research Council Act* requires. The Council's responsibilities were not clearly defined, and therefore members did not clearly understand them. The Council also lacked important governance and accountability structures. As a result, there was no effective oversight to management plans and decisions.
- **3.5** We noted that the NRC needed to review its corporate mechanisms for setting priorities, to avoid an imbalance between its

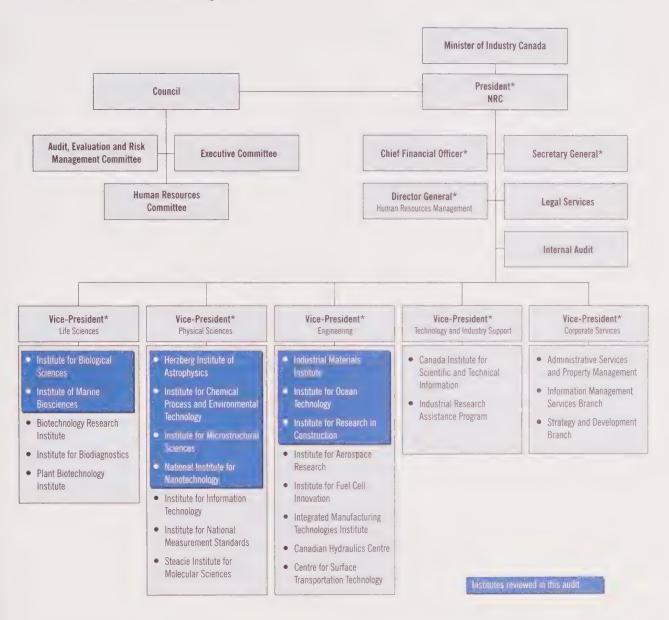
research activities and available funding. Without any core budget increases, the NRC continued to launch several long-term initiatives that included major increases in infrastructure and staff. The NRC faced important challenges in financing most of its activities.

- While most of the research at the NRC was well managed, the NRC's institutes did not subject the research, predominantly financed by parliamentary appropriations, to a rigorous priority-setting framework. We were concerned that if this situation continued, it could erode the core competencies the NRC needs to achieve its aim of being a world class institution.
- 3.7 To be a leading research and development organization, the NRC needed to be able to continue recruiting and retaining highly qualified researchers. To do so, the NRC needed to further develop its human resources management strategy, after assessing the risks and opportunities involved in addressing critical challenges at all its institutes. Further, the NRC needed to develop a coherent and comprehensive action plan to implement its strategy.
- After seven years of collecting and reporting corporate performance data, the NRC was continuing to improve its performance measurement and reporting practices, through a new corporate performance management framework. It needed to strengthen and implement that framework and to address weaknesses in its annual performance report to Parliament.
- The NRC accepted all our recommendations and indicated that it was already acting on them, or planned to do so.

#### Important changes since 2004

- 3.10 In February 2005, the government appointed a new president to the NRC. In May 2006, the NRC published its new strategy document, Science at Work for Canada: A Strategy for the National Research Council 2006–2011 (the NRC Strategy). Since the arrival of the new president, a new senior management team has been put in place for the NRC's organization (Exhibit 3.1).
- 3.11 Management achieved an important milestone in better governance in June 2006, when it presented the first NRC audited financial statements to the members of the Council. These audited financial statements provide reliable information that can assist strategic decision-making. Presenting financial information in accordance with generally accepted Canadian accounting standards improves transparency and helps stakeholders hold the NRC to account.

Exhibit 3.1 The National Research Council's organization



<sup>\*</sup>Members of corporate Senior Executive Committee

Source: The National Research Council Canada

#### Focus of the audit

- 3.12 This follow-up audit examined the same five lines of enquiry we identified in our 2004 audit: corporate governance, setting of corporate strategic direction, research management at the institute level, human resources management, and performance measurement and reporting.
- 3.13 We interviewed selected members of the Council, senior NRC officials, and staff; and we examined various NRC documents to determine the progress the organization had made in implementing each of our 2004 recommendations.
- **3.14** More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# Observations and Recommendations

- 3.15 The NRC has made satisfactory progress in implementing seven of the ten recommendations we made in 2004. Senior management has informed us that they have delayed implementing some recommendations or elements of other recommendations by approximately two years because of their concern with putting in place a new strategic vision for the organization, the NRC Strategy, and certain accountability measures.
- 3.16 Implementing the NRC Strategy is a complex, challenging, and time-consuming undertaking for the NRC. At the time of our audit, most implementation activities were just under way or in the planning stages. Given the importance of implementing the NRC Strategy, the associated risks, and the fact that implementing some of our recommendations will depend on implementing the NRC Strategy, we may re-examine the NRC's progress at a future date.

### Corporate governance

#### The Council plays a new more effective role

3.17 The National Research Council (NRC) Act does not distinguish between the "Council" referring to the 21 government-appointed members plus the President, and the "Council" referring to the officials and staff comprising the corporate body. The NRC practice at the time of our 2004 audit was to refer to the 22-member Council as the Governing Council. Since the NRC no longer uses the term "Governing Council," in this report we will use the Council to refer to the appointed members and the National Research Council Canada or NRC when referring to the corporate body.

- **3.18** The NRC Act defines the responsibilities of the Council very broadly. Section 5(1)(*b*) of the Act grants the Council the power to "control and direct the work of the Council through the President." In 2004, we observed that the NRC's governance and accountability regime did not allow the Council to challenge management decisions effectively.
- **3.19** In our opinion, the main responsibilities associated with controlling and directing the work of an organization include: approving corporate strategic plans, monitoring progress against those plans to achieve stated objectives, approving budgets, and approving accountability reports or annual reports. In order for the Council to fulfill this role, it is essential to ensure that the members have the appropriate skills and experience.
- 3.20 Soon after the tabling of our 2004 Report, the Council established the NRC Council Task Force on Governance, with a mandate to review the governance issues we had identified. The task force presented its report for discussion to members of the Council in its meetings in October 2004 and February 2005. In June 2005, the Council approved the task force's recommendations, including the new role for the Council (Exhibit 3.2).

#### Exhibit 3.2 The Council's new role

"Operating within the budgetary allocation that the Government sets for [the] NRC, Council is primarily responsible for providing strategic direction, reviewing performance and providing advice to the President. In particular, Council receives from the President and:

- approves major policy, planning and resource allocation proposals, including budgets;
- · approves the annual report including audited financial statements;
- · considers proposals for new initiatives; and
- considers reports on performance against established objectives.

Council also provides a challenge function for management and may request information or further reporting on a topic by the President."

Source: Report by the NRC Council Task Force on Governance, Annex A, June 2005

3.21 The Council has begun to carry out a more effective role. For example, since June 2005, it has reviewed and recommended to the President for approval the financial statements for the 2004–05 and 2005–06 fiscal years, and endorsed the NRC Strategy. However, it has not begun approving financial statements as intended in the statement of its new role. Our interviews with selected members of Council

identified that a lack of clarity about the role of the Council continues, despite the approval of its new role.

#### The Council established new standing committees

- 3.22 We noted in 2004 that the Council lacked important structural tools, such as the use of an audit committee or a human resources management committee. At the time, the Council only had the Executive Committee, the only committee specifically referred to in the NRC Act.
- 3.23 In October 2005, the Council established two additional standing committees and approved their memberships—the Audit, Evaluation and Risk Management Committee and the Human Resources Committee. It also approved the terms of reference of the two committees.

#### Vacancies in Council membership hamper its effective functioning

- 3.24 In order for the Council to exercise its mandated responsibilities, it is essential to ensure that its members have the appropriate skills and experience. In September 2005, the Council's Executive Committee approved a general profile of its membership. In addition to regional, sectoral, academic, and gender balance, the profile requires that, as a whole, the Council
  - is comprised of senior executives and generalists with an overall view of issues related to research and development policy, corporate governance, and research management; and
  - consists of members who can provide informed advice about financial administration, audit, program evaluation, strategic planning, and human resources management.
- 3.25 The NRC does not appoint members to its Council; they are appointed through orders-in-council. The NRC makes recommendations to the government on who should be considered for appointment. We would expect that the NRC's recommendations to the government reflect the organization's assessment of the competencies of its current membership, relative to the desired profile of the Council as a whole. This would assist the government in identifying the critical skills required for an effective Council and the best candidates to fill the positions.
- 3.26 During our audit, the Council never had more than 11 of the 21-member positions (plus the President) filled, which the NRC Act authorizes. These vacancies make it difficult for the Council to

function properly as a whole, especially with its two new committees. The NRC had raised its concerns about the vacancies with the Minister of Industry and had recommended several candidates.

**3.27** Recommendation. The National Research Council Canada should advise the government that the Council has adopted the general profile for its ideal membership. To assist the government in appointing new Council members in a timely fashion, the National Research Council Canada should identify suitable candidates based on the criteria in the general profile.

The National Research Council Canada's response. The National Research Council Canada agrees with this recommendation and has taken or is in the process of taking a number of steps to address it. NRC will continue to advise the government of its view of the general profile for its ideal membership on Council to assist it in appointing new Council members in a timely fashion. NRC will also continue to develop and communicate lists of candidates based on this profile, to the Minister of Industry, the Industry Portfolio, as well as to the Privy Council Office.

**3.28** Recommendation. The National Research Council Canada should clarify the role of the Council, at the corporate level and for members of the Council, in a manner that is consistent with the Council's approved new role and its mandate under the *National Research Council Act*.

The National Research Council Canada's response. The National Research Council Canada is in the process of clarifying Council's role as mandated by the *National Research Council Act*. This clarification, expected to be completed by the end of 2007, will be embedded thereafter in the orientation of new members.

#### Corporate senior management structure has been strengthened

3.29 After the government appointed a new president in February 2005, the NRC announced a new management structure, which took effect in October 2005. The previous management structure consisted of three vice-presidents—two in charge of all research and development activities and the other one responsible for technology and industry support. There are now five vice-presidents: three for the research and development program (one for each of the three portfolios—life sciences, physical sciences, and engineering), a fourth vice-president responsible for technology and industry support,

and a new position of Vice-President, Corporate Services, created in February 2006.

- 3.30 The Chief Financial Officer and the Director General, Human Resources Management Branch were made members of the NRC's Senior Executive Committee (SEC) in February 2004. Other SEC members include the President; the vice-presidents; and the Secretary General, a corporate secretary function supporting the President, the Council, and the SEC.
- 3.31 Management has informed us that the NRC is adopting a portfolio management approach at the corporate level. The approach will involve initiatives that cut across the three research portfolios and are designed to allocate limited resources more effectively, in line with the NRC priorities in the NRC Strategy. At the time of our audit, the NRC had yet to formally implement this approach.
- **3.32** We found that the overall progress for corporate governance issues was satisfactory (Exhibit 3.3).

Exhibit 3.3 Progress in addressing our recommendations on corporate governance

Recommendation	Our assessment of progress	Progress
The National Research Council (Governing Council) should define its role to meet its assigned responsibilities under the <i>National Research Council Act</i> and should put in place the necessary governance mechanisms to implement that role. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.32)	The Council has given itself a stronger role to meet the assigned responsibilities under the National Research Council Act. It has also established two new standing committees: the Audit, Evaluation and Risk Management Committee and the Human Resources Committee.	•
The National Research Council should seek advice on what remedies are available to it under the <i>National Research Council Act</i> to facilitate the realignment of the Governing Council's role, including ensuring that it has the right profile of Council members and, if appropriate, proposing amendments to the legislation to better reflect best practices for governance of departmental corporations. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.34)	The NRC was able to realign the role of the Council under the existing <i>National Research Council Act</i> . It has also approved a general profile of its ideal Council membership.	•
The National Research Council should include a review of the structure of its corporate senior management, to ensure appropriate accountability within the corporation and to a restructured Governing Council. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.33)	The structure of NRC's senior management has been strengthened by assigning the responsibilities for research and development activities to three portfolio vice-presidents. A position for Vice President, Corporate Services has also been established. In addition, the Chief Financial Officer and Director General, Human Resources Branch are now members of the Senior Executive Committee.	•

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# Setting of corporate strategic direction

# The National Research Council Strategy follows Vision 2006 and emphasizes collaboration and commercialization

- 3.33 In 2004, we concluded that the National Research Council Canada followed good practices in preparing a strategic document called *Vision 2006: Science at Work for Canada.* However, we found that the NRC did not have an overall process for synthesizing priorities and related decisions, based on a realistic assessment of capacity. The NRC had chosen to rely on Vision 2006 and its institutes' five-year strategic plans, without having one corporate business plan that would document major corporate goals and strategies to accomplish the corporate vision.
- **3.34** We recommended that the NRC develop a corporate business plan that set clear priorities, objectives, and strategies, based on the organization's financial capacity. We also recommended that as part of this planning process, the NRC develop a rigorous priority-setting mechanism and conduct a comprehensive review of the value and continuing relevance of all its activities.
- **3.35** In February 2005, the NRC's new President launched the renewal strategy to review the NRC's vision and to develop a new corporate strategy. The strategy consists of four phases: Environmental Scanning, Strategic Direction, Strategy Development, and Strategy Implementation. The first three phases of the project were completed by May 2006, with the release of the NRC Strategy.
- **3.36** The NRC Strategy states the NRC's role is "to be a critical instrument of the federal government, translating science and technology into social and economic well-being for Canada." It spells out three goals for the NRC:
  - contribute to the global competitiveness of Canadian industry in key sectors and to the economic viability of communities;
  - strengthen Canada's innovation system; and
  - make significant contributions to Canada's priorities in health and wellness, sustainable energy, and the environment—areas critical to Canada's future.
- **3.37** The NRC Strategy emphasizes improved collaboration with the NRC's partners to achieve greater commercialization of its research results.

#### First corporate business plan awaits completion of critical milestones

- 3.38 We reported in 2004 that, although the NRC had a strategic planning process in place to support Vision 2006, not all of its institutes followed the process and submitted five-year strategic plans. Some institutes prepared annual planning outlooks instead. At the time of our follow-up, some institutes continued to prepare five-year strategic plans or annual planning outlooks or both. At the same time, they began to prepare business plans, as the new planning process requires. The introduction of the NRC Strategy has made it even more important and urgent for the NRC to develop a corporate business plan.
- 3.39 The NRC Strategy articulates 4 strategies, 17 important actions, and 86 milestones (over five years) that will guide the NRC in implementing the strategy and achieving its goals. The NRC established project teams to carry out these major actions and interdependent milestones, organized into five projects:
  - planning, performance, and resource management (PPRM);
  - research programs;
  - organizational change under a project called "One NRC;"
  - · business review; and
  - sustainable organization.
- 3.40 While the PPRM project team will establish new management systems and processes, the other four project teams are carrying out critical decisions and crucial analyses, which the NRC needs to put the NRC Strategy to work.
- 3.41 The NRC has developed detailed terms of reference and plans for the PPRM project, and the team is well on its way to developing the business planning process and corporate performance management framework. Yet, the contents of a corporate business plan will require the NRC to complete 29 milestones identified in the NRC Strategy, including the following crucial activities:
  - complete its evaluation of competencies, capacity, and opportunities;
  - assess and augment its capacity for commercialization;
  - establish priorities within each research portfolio;
  - identify key players in the Canadian innovation system;
  - complete the Council's assessment of the competency portfolio;

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- rationalize existing programs; and
- evaluate potential areas of collaboration.
- 3.42 The NRC must carefully carry out these activities if it is to address the two critical weaknesses that we identified in 2004—its failures to determine the financial implications of proposed new strategies and to assess the value and continuing relevance of all its programs. The NRC has assigned the responsibility for carrying out these activities to the other four implementation project teams. At the time of our audit, these interrelated projects were in the early stage of implementation.
- 3.43 The PPRM project has already designed and piloted the business planning process. The process will integrate and align business plans that the institutes and programs submit, with the NRC's corporate business plan. The NRC is planning to produce its first corporate business plan by March 2007. It will be a challenge for the NRC to complete all the critical milestones indicated above.
- **3.44** We noted that the NRC had reviewed certain aspects of Vision 2006, as it developed the NRC Strategy. In our view, the NRC would benefit from a more formal and systematic assessment of lessons learned from Vision 2006.

# Significant risks are associated with implementing the National Research Council Strategy

- 3.45 Implementing the NRC Strategy is a complex and challenging undertaking. Given the NRC's experience with Vision 2006 and the risks that document identified, a number of conditions must prevail if the organization is to implement the NRC Strategy successfully. Through its own risk assessment and core competency assessment, the NRC has identified significant risks, including
  - the capacity of the organization and its institutes to implement new systems and processes;
  - its capacity to absorb change;
  - workload issues:
  - its competency in corporate governance, planning, and performance management; and
  - reports indicating evidence of difficulty in implementing major reform.

3.46 We are satisfied with the progress that the NRC has made in putting in place the new systems and process needed to produce the corporate business plan (Exhibit 3.4). We also believe that, although the NRC is keenly aware of the complexity and risks involved in implementing the NRC Strategy, it needs to devote attention to

Exhibit 3.4 Progress in addressing our recommendation on setting corporate strategic direction

Recommendation	Our assessment of progress	Progress
The National Research Council should develop a corporate business plan that sets clear priorities, objectives, and strategies based on its financial capacity. As part of this process, it should develop a rigorous priority-setting mechanism and conduct a comprehensive review of the value and continuing relevance of all of its activities, including refocussing of research efforts as appropriate. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.56)	The NRC plans to produce its first corporate business plan by March 2007. While putting in place the NRC Strategy has delayed the development of its corporate business plan, the NRC has nonetheless put in place appropriate processes and plans to provide the necessary foundation for the corporate business plan.	•

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the
  - Recommendation. The National Research Council Canada should take action to ensure all critical milestones are met to develop the corporate business plan on a timely basis. It should also monitor closely the implementation of the NRC Strategy to ensure that the complexity and risks are recognized and properly addressed.

The National Research Council Canada's response. The National

### Research management at the institute level

3.48 In 2004, we noted that the National Research Council Canada's mechanisms for handling project information did not allow it to analyze and reconfigure data to provide fundamental information, such as a compilation of all NRC projects, the cost of a project within a given program, and linkages between file systems. Information was scattered,

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and the NRC had weak mechanisms to cross-reference and integrate information. The organization also lacked documentation of project management processes and important decisions, such as the reasons projects were selected, approved, and terminated. We recommended that the NRC clearly document major decisions on projects to make sure it does not lose important corporate knowledge.

3.49 We also recommended that the NRC improve its priority-setting framework for projects in institutes, to include a rigorous project-approval process and a periodic review of the value of projects. The NRC committed to developing a priority-setting framework for its long-term research, based on institute best-practices that the audit report identified. It further committed to identifying best practices in the NRC and elsewhere, for documenting decisions related to project selection, approval, and termination; and to reflecting these best practices in the proposed priority-setting framework.

#### Clear criteria for project selection used, but documentation remains uneven

- **3.50** Our 2004 audit focused on research projects funded predominantly by parliamentary appropriations and managed solely by the NRC. Given the NRC's increasing focus under the NRC Strategy on collaboration and commercialization, during this follow-up audit, we examined projects that represent the full range of the types of funding at NRC institutes.
- **3.51** We asked all institutes for a list of their current projects, including basic information that would allow us to identify some projects for further analysis. We also asked each institute to indicate how long it took to respond to this request.
- **3.52** The staff time that each institute reported that it had expended in responding to our request varied significantly, ranging from under one hour to one or more days, and in one case—two weeks. This indicates, as we observed in 2004, that basic information is not always easily retrievable.
- **3.53** We selected twenty-six projects from nine institutes to examine further how institutes manage projects:
  - five projects had budgets or annual expenditures between \$1 million and \$9.5 million,
  - sixteen projects were between \$100,000 and \$1 million, and
  - five projects were less than \$100,000.

For each project we requested documentation that demonstrated what criteria the institutes used to select the project, any rating system involved, and the formal record of decision. To assess the quality of ongoing monitoring of projects, we requested documentation on the process, timing, and outcomes of project reviews, including any peer review processes that provided outside input into the evaluation of projects.

- 3.54 We discuss the results of our review of research projects in the following paragraphs and summarize them in Exhibit 3.5. The results are summarized by institute and not by project.
- Although we found considerable variation in how institutes select and monitor projects, we found the following good practices:
  - · All institutes have a well-defined project planning cycle with clear expectations and criteria for project selection, related to the NRC objectives, as well as their strategic plans. All institutes' project selection criteria included the availability of human and other resources, as well as scientific or industrial merit. However, in some cases a significant criterion was existing researchers' capacities, which could potentially conflict with the NRC's corporate aim to be flexible and responsive to changing needs.
  - Three institutes documented their process for using the criteria by rating and/or ranking different projects.
  - Three institutes used a risk analysis framework to assist in selecting at least some of their projects.
  - Eight institutes had an external peer, international, or industry review of proposed and ongoing projects. Some of these institutes view commercial or external funding as an implicit substitute for

Exhibit 3.5 Assessing the management of research projects at nine NRC institutes

	Project selection				
Expectations for managing research projects—total of 26 projects in 9 institutes	Use of clearly stated criteria	Evidence that criteria are applied systematically	Risk analysis framework	External and peer review	Internal quality review and monitoring
Institutes rated fully or partially satisfactory	9	3	3	8	7
Institutes with insufficient evidence	0	ō	б	1	2

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peer review, particularly when the funder itself conducted a review process. All institutes used internal reviews to assess project proposals.

- Seven institutes conducted a formal review of progress on a periodic basis, in addition to budget monitoring.
- We assessed the progress in addressing our recommendation on priority-setting at institutes as satisfactory (Exhibit 3.6).

# **3.56** Among the practices that require attention and improvement, we observed the following:

- Six institutes did not have documentation for systematically using the framework in the form of rating sheets, rankings, and records of decision. Indeed, several of the nine institutes reported to us in 2006 that their practices for project selection, monitoring, and termination were essentially the same as in 2004.
- Six of the institutes did not systematically assess financial, safety, or other risks; or conduct cost-benefit analyses of projects.
- One institute submitted projects to an external reviewer, but took no action to ensure that the review was ever received or considered.
- Two institutes did not document that the projects were formally monitored beyond budget reports.

Exhibit 3.6 Progress in addressing our recommendations on institute research management

Recommendation	Our assessment of progress	Progress
The National Research Council should improve the priority-setting framework in its institutes, so an appropriate process is in place to ensure that only research projects offering the best value for Canada are retained (Auditor General's March 2004 Report, Chapter 1, paragraph 1.67).	Three institutes explicitly used a priority-setting framework in the form of ranking and rating sheets. We noted the widespread awareness of criteria to guide project selection, indicating that progress is being made.	•
The National Research Council should clearly document key decisions related to research project selection, approval, termination, and major shifts in project direction to ensure that important corporate knowledge is not lost. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.71)	We found few formal records of decision for project approval or termination. Several institute heads indicated that their processes for project selection had not changed since 2004.	<u>(</u> )

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the
recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

- 3.57 We expected to observe institutes and their partners sharing best practices. The NRC informed us it had intended to share best practices among institutes, but we did not observe this happening. Most institutes said they used the NRC's Project Management Guide, which is also based on best practices. It was not clear how they used it.
- 3.58 In 2005, the NRC piloted a Research Management Self Assessment Tool, based on best practices across many facets of research management. This tool is designed to assist institutes in assessing how effective their research management was and in identifying opportunities for improvement. However, the NRC is still piloting this tool, which is not yet in general use. Of the nine institutes we examined, only two had been involved in the pilot.
- 3.59 Recommendation. The National Research Council Canada should further develop and implement decision-making tools and templates for project selection, as part of the NRC Strategy. It should also improve the project documentation and information retrieval systems required to support these decisions.

The National Research Council Canada's response. The audit report identifies best practices that exist in the institutes the auditors examined. These best practices and others in the remaining institutes will continue to be developed and strengthened as part of the Planning, Performance and Resource Management (PPRM) project for implementing the NRC Strategy. Mechanisms will be developed as part of the next project planning cycle for 2007–08 to ensure their transfer and application throughout the National Research Council Canada. It should be noted, however, that peer review and external consultations are not always appropriate and would not always be performed. This is the case for matters of national security and client confidentiality.

# Human resources management

**3.60** With 48 percent of the National Research Council Canada's budget devoted to people, many of them highly trained scientists and technicians, and with the NRC Strategy under way, human resources management (HRM) remains vital to the NRC's success.

Implementation of Human Resources Management reform awaited the National Research Council Strategy

3.61 The NRC's guiding principles for human resources management are described in its 2002 Employment Philosophy. As we observed in 2004, this philosophy is based on a strategy that is ambitious and

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high level, but that does not indicate priorities. The guiding principles include

- recruiting and retaining outstanding people;
- giving employees the opportunity and support to grow professionally, to utilize their strengths, and to produce to the maximum of their capabilities;
- rewarding employees based on their level of professional development and productivity in their job; and
- creating a respectful partnership with employees, based on trust and understanding.
- **3.62** The HRM Steering Committee concluded in 2005 that it needed to revise the Employment Philosophy to include more operational priorities and more realistic goals. This did not happen, because the NRC believes now that the Employment Philosophy should be revised only if required, in conjunction with other HRM practices, as part of implementing the NRC Strategy.
- 3.63 In 2004, in response to our audit, the NRC completed a human resources management plan and, in the 2005–06 fiscal year, created two new positions—Director, Total Compensation, and Performance Measurement Consultant. The NRC expects that the new positions will support and enhance the implementation phase of the NRC renewal strategy, and, at the same time, address our 2004 concerns about HRM capacity and planning. Because the positions have only recently been staffed, we were not able to observe what they have accomplished.
- **3.64** A similar situation exists for the environmental analysis, which is a required foundation for HRM planning. We recommended in 2004 that this analysis needed to be more extensive and should include an adequate assessment of risks and opportunities, and credible, factual, and future-oriented information from institutes, programs, and branches. In 2006, the NRC informed us that such a scan had begun, building on the NRC Strategy environmental scan. At the time of our audit, the HRM environmental scan was still under way.

Human Resources Management policies and practices are not yet aligned with the National Research Council Strategy

**3.65** In 2004, we noted that the NRC needed to clarify the qualifications of the people it needs to employ to achieve its objective of being a leading-edge research organization. The NRC also needed to

align its recruitment, staffing, performance management, and pay policies accordingly. We noted that the NRC had been reviewing its hiring practices, with the intention to streamline the process.

- We reviewed the most recent progress report (July 2006) produced by the NRC's Modernization of Hiring Initiative. The progress report described several operational improvements and noted that future initiatives need to include updating the hiring process to delegate more to institutes, programs, and branches.
- 3.67 The NRC instituted a Leadership Enrichment and Development Program (LEAD) in 2005, to identify and develop NRC employees with management potential and to provide them with opportunities to develop management and leadership skills to enhance their own job performance. The Senior Executive Committee viewed this as potentially helping to address succession planning issues. As well, two of the pilot business plans prepared by institutes, (see paragraph 3.71), identified succession planning as a key HRM issue.
- 3.68 Compensation remains an important area. This concerns not only salary, but all forms of rewards. Although the description of the newly established position of Director, Total Compensation does not formally include strategic planning for compensation, we were informed that planning and policy will constitute part of this job. This is essential, because the NRC will continue to try to offer rewarding careers and an environment that will attract top scientists and engineers, benefiting them and Canada. To do so, the NRC will need to consider carefully how recruitment, compensation, promotion, performance management and appraisal, awards, rewards, opportunities for professional contacts,
- The NRC needs and intends to conduct a comprehensive review of the way HRM policies and practices can reinforce its revised strategic priorities. It also needs to develop an action plan to make any required changes. Monetary compensation and promotion opportunities are obvious and important motivators, but they are not the only potential incentives or disincentives to help the NRC and its staff align their goals.

# A promising business planning process has started

3.70 As institutes write the business plans that the NRC Strategy expects from them soon, they will have to include HRM planning. To do this, they will need information about the future and analyses they often lack now.

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- **3.71** We reviewed the pilot business plans of three institutes. Two of the three contained an HRM component. The more complete of the two identified a number of HRM areas that the institutes will need to address. These include, among others,
  - leadership roles and responsibilities,
  - performance management,
  - reward systems,
  - strategic long-term recruitment needs,
  - · retention,
  - · succession-planning gap analysis, and
  - · learning and development.

Since many institutes lack sufficient planning capacity to address these issues, the NRC will need to consider how to improve that capacity.

3.72 In our view, the HRM component of the institute business plans is a good step in the right direction (Exhibit 3.7). It underscores the NRC's need to update a corporate HRM plan linking institute business plans with corporate HRM priorities.

Exhibit 3.7 Progress in addressing our recommendations on human resources management

Recommendation	Our assessment of progress	Progress
The National Research Council should develop a comprehensive human resources management (HRM) action plan in line with an HRM strategic plan. The action plan needs to address the critical challenges of recruitment, hiring, and compensation practices, and succession planning at both the corporate and institute levels. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.98)	The NRC created an HR Management Plan in 2004 and established positions relating to compensation and performance measurement. It expects to link significant elements of HRM planning such as recruitment, hiring, compensation, and succession planning, to NRC corporate and institute plans, as part of the implementation phase of the NRC Strategy.	
The National Research Council should continue its environmental analysis based on credible, factual, and future-oriented information at institutes, programs, and branches. It should focus on the most relevant human resources management challenges as a basis for setting priorities. The National Research Council should also clarify its strategic goals and develop measurable objectives linked to those priorities within a defined period of time. The Human Resources Branch should play a partnership role with senior management in setting the strategic direction. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.86)	An environmental analysis is now under way, and the Director General, Human Resources Branch is now a member of the Senior Executive Committee. Other aspects of the recommendation will be implemented as part of the NRC Strategy.	•

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

3.73 Recommendation. The National Research Council Canada should, as soon as possible, clearly align and integrate its Human Resources Management regime with its strategic priorities as expressed in the NRC Strategy. The regime should link compensation, rewards, promotions, awards and other forms of recognition, recruitment, succession planning, and performance management.

The National Research Council Canada's response. The National Research Council Canada agrees with this recommendation and has already taken steps to address these issues as part of the "One NRC" implementation project of the NRC Strategy. NRC will integrate compensation, rewards, promotions, awards and other forms of recognition, recruitment, succession planning, and performance planning with the strategic priorities of the NRC Strategy. This will be done via NRC's business planning process. The NRC corporate business plan, which will be released in March 2007, will reflect NRC's priorities for the next three years and will capture key human resources requirements to deliver on those priorities.

It is anticipated that the strategies to address recruitment, succession planning, performance management, and compensation (as it applies to position-based classification) will be developed by mid-2007, while strategies to address rewards, promotions, compensation, awards and other forms of recognition will be completed by mid-2008. The priorities for addressing these human resources issues will be confirmed with the development of the NRC corporate business plan.

# Performance measurement and reporting

# The National Research Council Strategy delays improvements to performance management

3.74 In 2004, we recommended that the National Research Council Canada do the following:

- establish clear and concrete targets for the results its main indicators measured.
- urgently establish a comprehensive plan with adequate resources to address gaps and implement its 2004 corporate performance management framework,
- link results to the costs incurred in achieving them, and
- continue to explore ways to strengthen systems and practices that ensure the reliability of performance information.

- 3.75 We also recommended that, in future performance reports, the NRC present results for its 28 indicators against clear and concrete expectations. In its response, the NRC stated that it would continue to improve its performance management framework and performance report.
- **3.76** The Management, Resources and Results Structure (MRRS) is a Treasury Board Secretariat policy that took effect on 1 April 2005, to support a government-wide approach to reporting performance information. In June 2005, the NRC informed us that it would align its performance management framework with the MRRS.
- 3.77 The NRC Strategy envisions that the performance management framework will be finalized in the early implementation stage of the Strategy and will be the driver for the NRC's planning process. NRC management informed us that the task of developing the MRRS has been delayed due to the need to align it to the NRC Strategy. Therefore, no such "driver" existed during the pilot of the business planning process. We found that there was little consistency in the performance information included in the pilot business plans submitted by institutes (Exhibit 3.8).

Exhibit 3.8 Progress addressing our recommendations on performance measurement and reporting

Recommendation	Our assessment of progress	Progress
The National Research Council should establish clear and concrete targets for the results measured by its key performance indicators. It should also move urgently to establish a comprehensive and adequately resourced plan for addressing gaps and implementing its new corporate performance management framework. This planning process should include steps to link results to the costs incurred in achieving them and continue to explore ways to strengthen systems and practices for assuring the reliability of performance information. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.108)	The introduction of the NRC Strategy has delayed the development of the Management, Resources and Results Management Structure, which is the basis to improve measurement and reporting of performance. As a result, this recommendation will only be addressed during the development of the NRC's first corporate business plan, as part of the implementation of the NRC Strategy.	
The National Research Council should present results for its 28 performance indicators against clear and concrete expectations in its future performance reports, and it should link costs to results—at least at the level of strategic outcomes. (Auditor General's March 2004 Report, Chapter 1, paragraph 1.117)	There is no significant improvement in presenting performance results in the NRC's performance reports.	0

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the
recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# Performance reports have not improved

- 3.78 Our 2004 examination of the NRC's past performance reports up to the 2002–03 fiscal year found that, although there had been steady improvements, there were still several ways to improve the reports and provide Parliament with better accountability.
- 3.79 Our review of the NRC's most recent performance reports (for the 2004–05 and 2005–06 fiscal years) indicates that there is no significant improvement from the reports that we reviewed in 2004. The NRC has not developed clear and concrete targets for its major indicators.
- **3.80** Until the NRC develops and uses a corporate performance management framework, as envisioned in the NRC Strategy, its performance report is not likely to improve.
- 3.81 Recommendation. The National Research Council Canada should expedite the completion of its Management, Resources and Results Structure, based on the existing corporate performance framework, and align it to the NRC Strategy. This would provide for meaningful performance information to be included in its 2007–08 Corporate Business Plan and future performance reports.

The National Research Council Canada's response. The National Research Council Canada is committed to developing an approved corporate performance framework based on the balanced scorecard approach and directly aligned to NRC's Strategy by 31 March 2007. The integration of the balanced scorecard with NRC's corporate business plan will provide performance measures and costs linked to the NRC Strategy.

The completion of the Management, Resources and Results Structure is scheduled for March 2008 and will be greatly expedited through the newly approved institute, program, and branch business planning process, which collects all of the information necessary to comply with the Treasury Board Secretariat Management, Resource and Results Structure policy.

# Conclusion

3.82 The Council has strengthened its role. It has demonstrated that by getting involved in major policy and budgetary decisions since June 2005. Yet, we noted differing views among some Council members about their specific role. The National Research Council

Canada should clarify the role of the Council at the corporate level and for members of the Council, in a manner that is consistent with the Council's approved new role and its mandate under the *National Research Council Act* (NRC Act).

- 3.83 The Council adopted a new committee structure. However, at the time of our audit, nearly half of the seats in the Council were empty. The vacancies inhibit the capacity of the Council and its committees from performing their roles properly. Since the Council approved a general profile of the competencies, skills, and characteristics that its members need before the Council can function effectively, we recommend that the NRC identify suitable candidates based on the criteria in the profile to assist the government in appointing new members.
- 3.84 The NRC's Vision 2006, which existed when we audited in 2004, is succeeded by the NRC Strategy, which emphasizes collaboration and commercialization. The NRC has put in place new management systems and processes to implement the NRC Strategy, and it plans to produce its first corporate business plan by March 2007. Yet, the NRC faces many critical milestones in completing this on a timely basis. Because of the importance and risks involved, we recommend that NRC management closely monitor and take action as needed to address the risks in implementing the NRC Strategy.
- **3.85** We observed that the use of clear criteria to determine priorities and guide project selection is widespread in the NRC institutes. We noted several good practices for selecting and reviewing research projects, but opportunities exist for greater use of priority-setting frameworks and documentation in the form of rating sheets or rankings.
- **3.86** Essential management information about projects is not always easily or uniformly retrievable. We recommend that the NRC improve its decision-making tools and templates for project selection, including documentation of key project decisions and retrieval systems necessary to support these decisions.
- 3.87 The NRC has made satisfactory progress in implementing our 2004 recommendations on human resources management by implementing several initiatives and making the Director General, Human Resources Branch part of the Senior Executive Committee. We noted, however, that full implementation of the recommendations must now await further development of the NRC Strategy. A Human Resources Management regime that links compensation, succession

planning, performance management, and other HRM functions to the NRC Strategy is essential if the Strategy is to succeed.

3.88 The development of the NRC Strategy has delayed the preparation of the corporate performance management framework. The NRC should quickly respond to the need to have meaningful performance information by completing this framework.

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# **About the Audit**

# **Objectives**

The overall audit objective was to assess the progress that the National Research Council Canada has made in addressing the concerns we raised in Chapter 1 of our March 2004 Report. This follow-up audit assessed the extent to which measures the NRC put in place since 2004 have improved the management of its scientific research activities.

# Scope, approach, and criteria

In 2004, we made 10 recommendations in five areas: corporate governance, corporate strategic direction, research management at the institute level, human resources management, and performance measurement and reporting. In this follow-up audit we interviewed selected Council members, NRC senior executives, and staff; and examined various documents to assess the NRC's progress in implementing each of our 10 recommendations.

We expected that the measures the NRC took would lead to the following conditions:

- The NRC's corporate systems and practices should stipulate periodic reassessment of the value and continuing relevance of existing research programs. They should link the organization's strategic decisions and priorities to its mandate and to the government's agenda. The NRC should establish its priorities through consultation with major stakeholders, and they should be based on a thorough analysis of the NRC's operating environment, options, risks, and future impacts. The allocation of internal funds should reflect the priorities.
- The NRC should establish appropriate systems and practices for selecting, monitoring, and terminating research projects, to ensure the best value for Canada. This should include risk analysis, peer reviews, identification of potential uses and users, periodic review of the value of projects, corporate management oversight, and assurance of a link to the NRC's vision and goals.
- The NRC should employ a competent workforce, providing the appropriate mix of employment
  relationships to achieve its short- and long-term strategic and operational objectives, in a timely and
  cost-effective way. The NRC's systems and practices should include a definition of desired major
  competencies; strategies to hire the right people to complete the desired workforce profile; and
  adequate strategies for recruitment, selection, hiring, employment, termination/retirement, and
  training.
- The NRC's performance management framework should provide clear and concrete performance expectations and credible and balanced performance results to manage its vision effectively and promote good accountability to Parliament and Canadian taxpayers.

# **Audit work completed**

Audit work for this chapter was substantially completed on 30 October 2006.

# Audit team

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation

# Response

## Corporate governance

3.27 The National Research Council Canada should advise the government that the Council has adopted the general profile for its ideal membership. To assist the government in appointing new Council members in a timely fashion, the National Research Council Canada should identify suitable candidates based on the criteria in the general profile.

(3.17–3.26)

The National Research Council Canada agrees with this recommendation and has taken or is in the process of taking a number of steps to address it. NRC will continue to advise the government of its view of the general profile for its ideal membership on Council to assist it in appointing new Council members in a timely fashion. NRC will also continue to develop and communicate lists of candidates based on this profile, to the Minister of Industry, the Industry Portfolio, as well as to the Privy Council Office.

3.28 The National Research Council Canada should clarify the role of the Council, at the corporate level and for members of the Council, in a manner that is consistent with the Council's approved new role and its mandate under the *National Research Council Act*.

The National Research Council Canada is in the process of clarifying Council's role as mandated by the *National Research Council Act*. This clarification, expected to be completed by the end of 2007, will be embedded thereafter in the orientation of new members.

# Setting of corporate strategic direction

(3.17 - 3.26)

3.47 The National Research Council Canada should take action to ensure all critical milestones are met to develop the corporate business plan on a timely basis. It should also monitor closely the implementation of the NRC Strategy to ensure that the complexity and risks are recognized and properly addressed.

(3.33–3.46)

The National Research Council Canada agrees with this recommendation. As noted in the Report, the implementation of the NRC Strategy is a complex and challenging undertaking involving reviews of programs, processes, and resources. NRC is committed to implementing the NRC Strategy.

NRC's corporate business plan, which operationalizes the NRC Strategy, will be completed by 31 March 2007. NRC will continue to monitor its implementation for important milestones and risks.

#### Recommendation

# Response

# Research management at the institute level

3.59 The National Research Council Canada should further develop and implement decision-making tools and templates for project selection, as part of the NRC Strategy. It should also improve the project documentation and information retrieval systems required to support these decisions.

(3.48–3.58)

The audit report identifies best practices that exist in the institutes the auditors examined. These best practices and others in the remaining institutes will continue to be developed and strengthened as part of the Planning, Performance and Resource Management (PPRM) project for implementing the NRC Strategy. Mechanisms will be developed as part of the next project planning cycle for 2007–08 to ensure their transfer and application throughout the National Research Council Canada. It should be noted, however, that peer review and external consultations are not always appropriate and would not always be performed. This is the case for matters of national security and client confidentiality.

## Human resources management

3.73 The National Research Council Canada should, as soon as possible, clearly align and integrate its Human Resources Management regime with its strategic priorities as expressed in the NRC Strategy. The regime should link compensation, rewards, promotions, awards and other forms of recognition, recruitment, succession planning, and performance management.

(3.60 - 3.72)

The National Research Council Canada agrees with this recommendation and has already taken steps to address these issues as part of the "One NRC" implementation project of the NRC Strategy. NRC will integrate compensation, rewards, promotions, awards and other forms of recognition, recruitment, succession planning, and performance planning with the strategic priorities of the NRC Strategy. This will be done via NRC's business planning process. The NRC corporate business plan, which will be released in March 2007, will reflect NRC's priorities for the next three years and will capture key human resources requirements to deliver on those priorities.

It is anticipated that the strategies to address recruitment, succession planning, performance management, and compensation (as it applies to position-based classification) will be developed by mid-2007, while strategies to address rewards, promotions, compensation, awards and other forms of recognition will be completed by mid-2008. The priorities for addressing these human resources issues will be confirmed with the development of the NRC corporate business plan.

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#### Recommendation

# Response

# Performance measurement and reporting

3.81 The National Research Council Canada should expedite the completion of its Management, Resources and Results Structure, based on the existing corporate performance framework, and align it to the NRC Strategy. This would provide for meaningful performance information to be included in its 2007–08 Corporate Business Plan and future performance reports. (3.74–3.80)

The National Research Council Canada is committed to developing an approved corporate performance framework based on the balanced scorecard approach and directly aligned to NRC's Strategy by 31 March 2007. The integration of the balanced scorecard with NRC's corporate business plan will provide performance measures and costs linked to the NRC Strategy.

The completion of the Management, Resources and Results Structure is scheduled for March 2008 and will be greatly expedited through the newly approved institute, program, and branch business planning process, which collects all of the information necessary to comply with the Treasury Board Secretariat Management, Resource and Results Structure policy.



# Report of the Auditor General of Canada to the House of Commons—February 2007

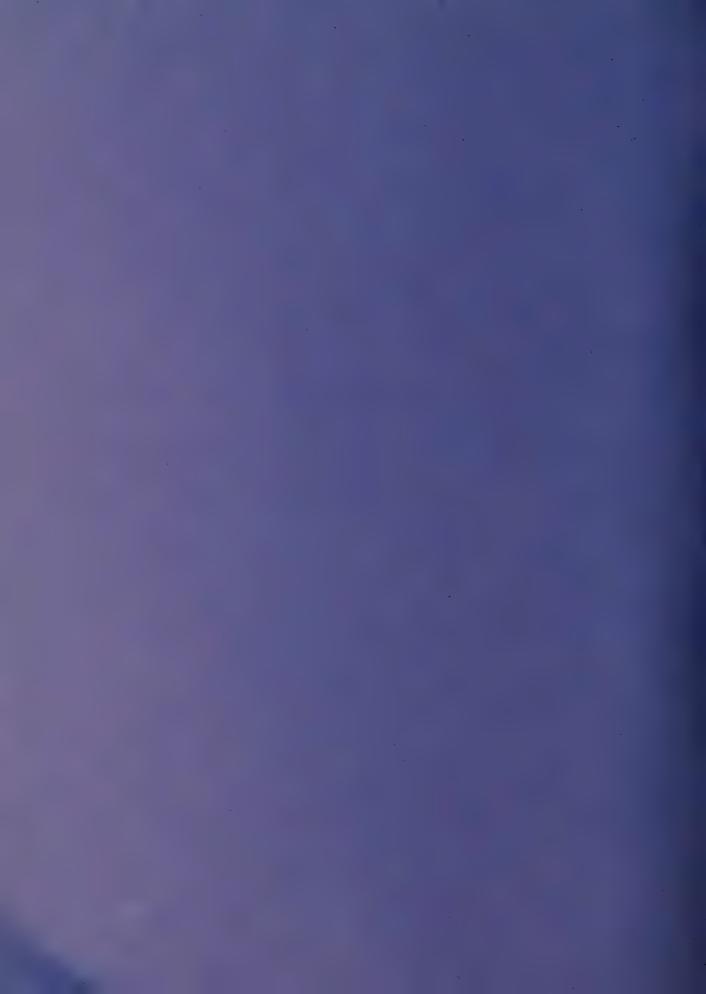
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A Message from the Auditor General of Canada







2007



A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 4
Managing the Coast Guard Fleet
and Marine Navigational Services—
Fisheries and Oceans Canada



Office of the Auditor General of Canada



# 2007



# A Status Report of the Auditor General of Canada to the House of Commons

# **FEBRUARY**

# Chapter 4 Managing the Coast Guard Fleet and Marine Navigational Services— Fisheries and Oceans Canada



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

4

Managing the Coast Guard Fleet and Marine Navigational Services

Fisheries and Oceans Canada

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we also draw upon the standards and practices of other disciplines.	

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# Managing the Coast Guard Fleet and Marine Navigational Services Fisheries and Oceans Canada

# **Main Points**

# What we examined

We examined progress made in addressing our recommendations from audits in 2000 and 2002, when we reported that Fisheries and Oceans Canada had not managed the Canadian Coast Guard fleet and marine navigational services cost-effectively. Many management problems we found in those audits were similar to our observations in a 1983 audit of Canadian Coast Guard operations. The Coast Guard became a special operating agency within Fisheries and Oceans Canada in 2005. This change is intended to affirm the Coast Guard as a national institution.

Since our 2002 audit, the Coast Guard has played an increasing role in supporting maritime security. In our follow-up audit, we looked at this emerging role and its implications for managing the fleet and marine navigational services.

# Why it's important

The safe and efficient passage of vessels through Canadian waters depends on reliable and sophisticated marine navigation systems. Like others around the world, Canadian mariners are increasing their reliance on electronic navigation rather than traditional physical infrastructure such as buoys and light stations. As the main Canadian provider of marine navigational services, the Coast Guard must make the same transition.

The Coast Guard also provides icebreaking and search and rescue services, and supports other programs of Fisheries and Oceans Canada, such as science and fisheries management, and those of other government departments. Its fleet is used to gather scientific data for key decisions such as how much fish can be taken by fishers, what species need protecting, and where aquaculture sites can be established. Use of the Coast Guard's fleet is also important to fishery officers who enforce domestic and certain international rules that govern the fisheries.

# What we found

 Fisheries and Oceans Canada has made unsatisfactory progress over the last four to six years in implementing our recommendations. The Coast Guard has not been able to use its status as a line organization,

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and then as a special operating agency within the Department, to become a strong national institution. It still operates largely as five regional coast guards, each with its own way of doing things. The Coast Guard has not developed national policies, service levels, and integrated planning, management, and performance information systems that are necessary to transform itself into a national institution.

- The Coast Guard has an aging fleet that is costly to maintain and operate. Progress in renewing the Coast Guard's fleet has been slow. The current replacement schedule is already becoming outdated and unrealistic. It provides for replacing many vessels long after they have passed their estimated useful lives. For example, the estimated useful life of an icebreaker is 30 years, but, as currently scheduled, they will be between 40 and 48 years old when they are replaced.
- The Coast Guard's vessels are becoming increasingly unreliable, which is having an impact on its ability to support the Department's programs and those of other government departments. For example, certain key fish stock surveys have had to be cancelled because vessels were not available. The absence of standard vessel maintenance practices has contributed to equipment failure on board vessels leading to lengthy and costly periods when vessels are not in service. The project designed to address life cycle management issues is at least two years behind schedule.
- The Coast Guard's modernization of its operations has been slow and not managed well. The Coast Guard has a history of failing to complete planned initiatives. For example, implementation of the special operating agency, which is a key government initiative designed to change the way the Coast Guard operates, is behind schedule. As the Coast Guard has modernized through investing in new technologies, it has been unable to develop and implement strategies to shed old infrastructure and facilities that are no longer needed for their original purpose. New technologies designed to improve marine safety and to save costs through efficiency end up costing the organization more.

Fisheries and Oceans Canada has responded. Fisheries and Oceans Canada has agreed with our recommendation. Its detailed response follows our recommendation in paragraph 4.89.

# Introduction

- 4.1 In 2000, we reported on Fisheries and Oceans Canada's management of the Coast Guard's fleet of large vessels and the staff that were directly involved in managing and operating the fleet, at sea and on shore. In 2002, we examined the marine navigational services that the Department provided, including
  - navigational aids (for example, buoys, radio beacons, and light stations);
  - marine communication and traffic services;
  - navigational charts;
  - navigable waters protection; and
  - boating safety.
- **4.2** Our overall conclusion in 2000 and 2002 was that the Department had not managed these operations cost-effectively.

#### What we found in 2000

- **4.3** Fleet management. We observed the following problems in the fleet's management practices:
  - The Department had not established clear, concrete, realistic, and agreed-upon performance expectations for the fleet.
  - The funding was only for one year, even though the fleet is a capital-intensive activity with high fixed costs that requires long-term funding certainty.
  - The Coast Guard did not have service agreements that clearly established performance and funding arrangements between the Department's programs and the fleet.
  - Internal budgetary processes did not support accountability for fleet activity.
  - Information systems were not integrated and did not provide managers with reliable, timely information about performance and cost.
  - The method of allocating costs to programs discouraged vessel use.
  - The fleet did not employ a life-cycle approach (that considers benefits, costs, and risks over the long-term) to managing its vessels.

- The Coast Guard was not adequately managing its single-largest operating expense—its human resources.
- There was too much shore-based support, given the size of the fleet.
- There were weaknesses in the Department's reporting to Parliament.

#### What we found in 2002

- **4.4 Marine navigational services.** We found that significant barriers prevented the Department from modernizing and providing marine navigational services cost-effectively, including
  - a failure to ensure that there was one national program;
  - a failure of headquarters to hold regional operations accountable for implementing national policies and meeting international obligations; and
  - an absence of critical elements to ensure accountability, such as clear and concrete targets, the alignment of budgets with resources to meet those targets, and accountability for results.

#### **Events since 2002**

- 4.5 In 2002, the Coast Guard began assessing its maritime safety activities, including its marine navigational services. Later in 2002, this assessment was merged into a wider departmental review, the Departmental Assessment and Alignment Project. The Project's goals were to address significant challenges facing the Department by restoring financial stability, modernizing management practices and renewing policies and programs. The final Project report, in 2004, recommended changes that would affect the way that the Coast Guard operates, including
  - modernizing maritime services—placing more reliance on technology-based productivity improvements and making greater use of partnerships;
  - rationalizing shore support—implementing measures to reduce the cost of shore-based support; and
  - revitalizing the fleet—ensuring that the fleet is the right size to address both the immediate and long-term needs of government.
- **4.6** In 2003, the government selected Fisheries and Oceans Canada to be reviewed as part of a government-wide expenditure review.

The expenditure reductions expected from the Department, including the Coast Guard, were announced in the February 2005 Budget.

- 4.7 In June 2003, the Department's Deputy Minister delegated direct responsibility for all of the Coast Guard, including regional operations, to the Commissioner of the Coast Guard. Previously, the Commissioner had set national policy and direction, and the Department's regional directors general, who reported to the Deputy Minister, had been responsible for the management of Coast Guard operations.
- **4.8** In December 2003, the government transferred the Coast Guard's responsibilities for regulatory policy for marine safety, boating safety and navigable waters protection to Transport Canada.
- 4.9 On 1 April 2005, the direct reporting relationship between the Commissioner and the Coast Guard's regional operations was further enhanced when the Coast Guard became a special operating agency (SOA) within the Department. The Commissioner remains responsible to the Deputy Minister of Fisheries and Oceans, and the Coast Guard continues to rely on departmental administrative services such as finance, human resources, and real property management. Designating the Coast Guard an SOA was intended to
  - affirm the Coast Guard as a national institution,
  - ensure that the Coast Guard's fleet provides services to the government, and
  - give the Coast Guard more autonomy and operational flexibility.
- 4.10 The Department's 2005–2006 Report on Plans and Priorities affirmed the Coast Guard's rejuvenation strategy "to secure a sustainable service delivery model." This strategy examined options for renewing the Coast Guard's fleet and other shore-based infrastructure. The strategy also looks at transforming the Coast Guard's marine navigational services through
  - technology-based productivity improvements,
  - · client service innovations, and
  - alternative service delivery.
- 4.11 Since our previous audits, the Coast Guard's contribution to maritime security has increased. Coast Guard vessels are expected to be more visible, and its Marine Communication and Traffic Service (MCTS) centres gather information about vessels in Canadian waters

and provides it to the National Defence and Royal Canadian Mounted Police Marine Security Operations Centres.

4.12 The estimated cost of the areas examined in this audit—marine navigational and fleet services—are based on information reported in the Public Accounts of Canada. In the 2005–06 fiscal year, the cost of fleet services was \$344 million (unaudited) and the cost of marine navigational services was \$245 million (unaudited).

#### Focus of the audit

- 4.13 This follow-up audit focused on whether Fisheries and Oceans Canada has made satisfactory progress in implementing the recommendations of our December 2000 Report, Chapter 31, Fleet Management and our December 2002 Report, Chapter 2, Contributing to Safe and Efficient Marine Navigation. The recommendations focused on the need for the Coast Guard to improve the
  - cost-effectiveness of service delivery,
  - · consistency of national program design and delivery,
  - performance reporting and accountability,
  - integration of services,
  - use of life-cycle management, and
  - management of human resources.
- **4.14** We also examined the Coast Guard's emerging role in support of maritime security, which we did not examine in the previous two audits.
- **4.15** We did not examine two areas from the 2002 report, boating safety and navigable waters protection, as the responsibility for those two areas has been transferred from the Coast Guard to Transport Canada.
- 4.16 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# **Observations and Recommendation**

# **Coast Guard progress**

# Progress has been unsatisfactory

- 4.17 While our recommendations from the previous two reports were made to Fisheries and Oceans Canada, they largely focused on matters relating to the Coast Guard. In this follow-up audit, we found that the Coast Guard has not made satisfactory progress addressing our recommendations. The Department agreed with all of the recommendations included in our 2000 and 2002 reports. The government also agreed with the recommendations of Parliamentary committees that reviewed our reports and supported our recommendations. In Exhibit 4.1, we summarize our assessment of the progress made against the recommendations from each report.
- 4.18 In its response to the 22nd Report of the Standing Committee on Public Accounts, dated 21 October 2002, the government responded to the Committee's recommendations and reported on the progress the Coast Guard had made on specific initiatives we addressed in our 2000 report. We found that the Coast Guard had begun to act on initiatives in the government's response. However, it had not completed them. For example, the Coast Guard has not implemented life-cycle management or service agreements with users, nor has it standardized its data collection.
- **4.19** We are concerned that the Coast Guard has a history of failing to complete corrective action on issues raised in our reports and the reports of parliamentary committees. A 1983 Auditor General's report raised a number of the same issues we raised in our 2000 and 2002 reports. At that time, we reported on the
  - lack of appropriate service levels to justify the requirement for vessels and navigational aids,
  - · lack of a systematic assessment and response to risks, and
  - Coast Guard's inability to shed old technology as it introduced new technology.
- **4.20** In the remainder of this report, we focus on what we have found to be the underlying causes for the Coast Guard's unsatisfactory progress.

Exhibit 4.1 Assessment of progress in implementing our recommendations

Auditor General's 2000 Report, Chapter 31		
Recommendation	Progress	
The Department should review how the fleet fits into its current organizational and accountability structure and take measures to ensure that the fleet can operate in a cost-effective manner. (paragraph 31.72)	0	
The Department should address the weaknesses associated with its key fleet management processes, including:		
<ul> <li>establishing clear, concrete and realistic program performance expectations that include a long-term perspective;</li> </ul>		
establishing a long-term fleet planning and funding horizon;		
developing service accords between the programs and the fleet;		
establishing budgetary processes that support accountability;		
<ul> <li>setting up integrated information systems to enable the Department to monitor and account for the actual performance of the fleet in terms of service and cost; and</li> </ul>		
<ul> <li>implementing costing policies that support the use of the lowest-cost alternative in acquiring service while meeting departmental objectives. (paragraph 31.73)</li> </ul>		
The Department should consider a longer-term strategy to renew its aging fleet. Such a strategy should take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the service needed. (paragraph 31.106)		
The Department should complete the development and implementation of life cycle management policies and procedures for its fleet. (paragraph 31.107)	1 0	
The Department should ensure that the fleet activity is supported by information systems that produce integrated, timely, reliable and relevant information. (paragraph 31.108)		
The Department should develop a human resource strategy for the fleet to address the need to maintain the skills and knowledge of ship-based personnel and to ensure that a sufficient number of qualified officers and crew are available in the future. The strategy should consider a long-term approach to the collective agreements with ships' personnel so that they can be administered in an efficient and economical manner and can support the fleet's operational requirements. (paragraph 31.137)	0	
The Department should regularly analyze payroll costs related to the fleet and take action to control such costs, where necessary. (paragraph 31.138)	0	

Exhibit 4.1 Assessment of progress in implementing our recommendations (continued)

Auditor General's December 2002 Report, Chapter 2				
Recommendation	Progress			
The Canadian Coast Guard should ensure that there are up-to-date national policies, standards, and levels of service expectations for its navigational support services. It should also develop the capability to monitor the implementation of these policies, standards, and expectations. (paragraph 2.53)	0			
For its navigational support services and boating safety activities, Fisheries and Oceans Canada should do the following:				
• complete the implementation of its results-based management and accountability frameworks;				
establish clear, measurable, concrete targets for the identified outputs and immediate outcomes for each framework;	0			
<ul> <li>identify who is accountable for achieving targets and managing resources;</li> </ul>				
align budgeting and resource allocation with the frameworks;     and				
• develop or identify sources of information to measure results. (paragraph 2.68)				
The Coast Guard should complete and implement its draft guidance on risk management. (paragraph 2.73)				
Fisheries and Oceans Canada should develop and implement strategies to modernize and integrate the delivery of its navigational support services to meet user needs. (paragraph 2.77)				
Fisheries and Oceans Canada should develop and implement an overall strategy for the future of its light stations, considering maritime safety and heritage objectives. (paragraph 2.90)	ĕ			
Fisheries and Oceans Canada should gather and monitor information on boating safety to assess the adequacy of third-party delivery, determine the extent of compliance with regulations, and review the adequacy of the resources provided to this program. (paragraph 2.98)	Not Assessed			

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# The building of a strong national institution

#### Progress in developing a national approach has been limited

**4.21 Five Coast Guards still an issue.** The Departmental Assessment and Alignment Project recognized that the Coast Guard "needs to be one national institution, instead of a loose amalgamation of different

- regions." The Coast Guard has found it challenging to move from five regionally based organizations to one national institution.
- 4.22 In our previous two reports on the Coast Guard, we highlighted the fact that its five regions operate differently, and we concluded that five regional coast guards existed. During this follow-up audit, we found that there continue to be inconsistencies in regional procedures, practices, and organizational structure. We also found that the Coast Guard's headquarters still does not hold the regions accountable for their operational results or for the Coast Guard's service to its clients. Regions deliver all Coast Guard services. The Coast Guard has yet to strike the right balance between appropriate national direction and
- 4.23 Limited progress in updating national guidance. Guidance from headquarters (national guidance) to regional operations, when it does exist, is often out of date or too general. Since 2002, the Coast Guard has revised only one of nineteen operational directives for the provision of navigational aids. In our 2002 report, we observed that these directives were not current and needed to be updated, and contributed to services being provided differently across the country.
- 4.24 In addition, the Coast Guard has not yet developed standardized maintenance procedures and manuals for its fleet and electronic equipment. In spring 2006, the Coast Guard had the potable water tanks of two vessels recoated. The original estimated cost of this work was \$53,000. After the work was completed, serious problems were found with the water tanks. Coast Guard officials concluded that insufficient guidance on refit procedures lead to unexpected repairs and lost operational time costing over \$1.6 million. The case study on page 11 shows other instances where out-of-date or missing maintenance documents have been linked to maintenance failures on
- 4.25 The Coast Guard's information systems are unreliable, partly because different regions have different practices for entering data into their systems. The regions have not been given sufficient guidance to ensure that they follow a common approach.
- 4.26 In our 2000 report, we noted that in one region, Coast Guard vessels on standby for offshore search and rescue operations maintained navigational aids. In the other regions, however, when

vessels were on standby for offshore search and rescue, they were not allowed to maintain navigational aids. We found that this inconsistent practice continues.

4.27 Failure to ensure that regions follow guidance. Where national guidance is well-established, we observed that the Coast Guard has not been able to ensure that its regional operations always follow that guidance. For example, it is Coast Guard policy to review systems of navigational aids on a cyclical basis, every five years, to systematically assess changes to safety risks in particular waterways and ensure an appropriate response. We noted that only one region has met this requirement.

#### Case Study: Maintenance failures and the need for current manuals

#### Damage to the CCGS Louis S. St-Laurent, No. 1 main engine

The CCGS Louis S. St-Laurent is a large icebreaker powered by five 16-cylinder diesel engines. To address corrosion problems that developed on the engines' fuel pumps, the Coast Guard had been replacing components in the fuel pumps. This required maintenance workers to remove and dismantle each of the 16 fuel pumps on each engine, and re-assemble them with modified parts. In February and March 2001, the workers modified the fuel pumps on three engines (Nos. 3, 4, and 5) and subsequently modified one fuel pump on engine No. 1. In November 2001, just prior to the vessel's winter lay-up period, they began modifying the remaining 15 fuel pumps on engine No. 1. The fuel pumps were removed, dismantled, and stored in individual boxes to await re-assembly following the lay-up period.

After the two-month lay-up period, the 15 fuel pumps were re-assembled with the modified parts and re-installed on the No. 1 engine. When the engine was fired up on 4 March 2002, it appeared to start normally, but then accelerated beyond its operating range. During this uncontrolled acceleration, several engine components broke or sustained significant damage, which contributed to the generator being damaged. The Coast Guard's investigation found that the reason for the uncontrolled acceleration of the engine was incorrect re-assembly of the fuel pumps. It also found that the documentation and instructions on how to assemble the fuel pumps was inadequate. The Coast Guard has reported that the cost to repair the engine and generator was almost \$6 million.

#### Engine room fire on the CCGS Alfred Needler

On 30 August 2003, the CCGS Alfred Needler was travelling to Nova Scotia from Quebec to pick up science staff for its next mission. During the voyage, the turbocharger on the main engine broke. The crew made an emergency repair by removing part of the turbocharger assembly. However, they had to repair the turbocharger without consulting the manufacturer's instruction manual, because they could not find it.

As a result, they did not perform some of the procedures specified in the instruction manual, and a significant quantity of lubricating oil was discharged into the main engine exhaust stack. The oil eventually ignited, causing a fire that lasted several hours and spread to other sections of the ship. The direct cost of repairing the damage was about \$1.3 million. The Coast Guard's investigation concluded that not being able to locate the manufacturer's instruction manual contributed to the fire.

#### Failure of the CCGS W.E. Ricker engine

On 27 April 2005, the CCGS W.E. Ricker was travelling to a science mission when its engine failed. The failure occurred when internal engine components loosened and eventually came apart. The damage to the engine was significant, costing about \$350,000 to repair. In addition, it cost about \$1.6 million to charter replacement vessels.

The Coast Guard's investigation found that certain engine components were not tightened according to the manufacturer's recommendations, and that subsequent periodic inspections should have been more thorough. In addition, the main engine instruction manual provided little information and was poorly written. The investigation report included recommendations to document instructions clearly for the performance of critical tasks on the main engine.

- 4.28 A national Marine Communications and Traffic Service (MCTS) policy permits MCTS centres to use fewer staff during periods of low activity. This limits the need to replace sick workers and helps to reduce overtime and scheduling problems. We noted that two regions do not take advantage of this policy to help reduce ongoing scheduling problems in MCTS centres.
- 4.29 Coast Guard lack of comprehensive performance information. In 2002, we reported that the Coast Guard had limited performance information to show how it contributed to its strategic objective to ensure safe and efficient navigation, which is now—to ensure safe and accessible waterways. We reported that the Coast Guard had draft results-based management and accountability frameworks for its program areas. The Coast Guard made a commitment to complete these frameworks, but it failed to do so.
- 4.30 In June 2004, as part of its Fleet Management Renewal Initiative, the Coast Guard approved a results-based management accountability framework for the fleet. However, the Coast Guard has not made significant progress in implementing this framework.
- These frameworks are important, because they are intended to establish the way the Coast Guard manages for results and ensures accountability. The Coast Guard continues to need comprehensive tools to measure and report results.
- 4.32 Need for standardized regional organizational structures. Since at least 2000, the Coast Guard headquarters has been undergoing constant reorganization. As part of the process in which the Coast Guard was designated a special operating agency, a standard organization structure was approved in principle. This structure has largely been in place at headquarters since mid-2006. However, implementing a standard organizational structure in the regional offices has been prevented by delays in classifying positions, a lack of funding for new positions, unique regional activities, and resistance to
- 4.33 Consequently, the regions continue to operate according to existing disparate organizational structures. Standardizing the organizational structure is an important initiative for building the Coast Guard as a national institution.
- 4.34 Variations found in Coast Guard review. In early 2006, the Coast Guard started a review of its activities and the related costs and funding. The review found a wide range of operational practices, and variations in recording performance information and related costs. The

variation in management practices across the country is an organizational legacy that will be difficult to overcome.

#### Coast Guard has difficulty meeting client needs

- **4.35** The Coast Guard has recognized the need to change its focus to be client-driven and accountable to users. We found that the Coast Guard is having difficulty meeting some of its clients' needs.
- 4.36 The fleet's unreliability. One of the Coast Guard's most important clients is Fisheries and Oceans Canada's Science Sector. However, unexpected equipment failures for significant periods of time have forced vessels that support the Science Sector's programs out of service and have left the fleet unable to meet the client's requirements. Faulty maintenance practices and the age of many of these vessels have contributed to these equipment failures. Overall, the cost of providing the service to the Science Sector has risen sharply, while the number of days at sea and the reliability of that service have lessened. The Science Sector funds the fixed costs of science vessels, whether the vessels are operational or not.
- 4.37 Due to the vessels' unreliability, the Department has had to cancel some fish stock surveys. This affects the quality of the information and advice that the Department's officials give their minister. The case study on page 14 illustrates this problem. The rising cost of operating the Coast Guard fleet and the unreliability of its vessels, will likely continue to negatively affect the quality of scientific advice that the Minister receives.
- 4.38 In the February 2005 Budget, the government announced its intention to purchase two new science vessels. When these vessels were initially approved, they were supposed to be delivered in January and July 2010. The Coast Guard has recently informed us that these vessels will not be available until 2011. The Coast Guard plans to address vessel unreliability, until the replacement vessels are available, by maintaining three fisheries research trawlers on the Atlantic Coast but with only two operating at any one time.
- **4.39** Coast Guard accountability to clients. The fundamental elements that are necessary to hold the Coast Guard accountable to the users of its fleet service are still not in place. The Fleet Management Renewal Initiative was supposed to bring about changes required to make the fleet more accountable (see paragraph 4.44).

#### Case Study: Unreliability of science vessels

Fisheries and Oceans Canada's Science Sector uses two main offshore fisheries research vessels to conduct fish surveys in the Newfoundland Region—the CCGS *Wilfred Templeman* and the *CCGS Teleost*. Since 2000, the Science Sector has been unable to complete many of its multi-species surveys because of problems with these vessels.

For example, mechanical urear invitability, which is, then and mainly give have become regularly on the CCGS Teleost. Longer-than-expected refit and lay-up periods delayed the CCGS Wilfred Templeman's return to operational status by several weeks, in Appliance September 2004 and an analysis of Appliance Application Application Application with potation water tables took both vessels out of service for several weeks.

The mechanical, refit, and lay-up problems delayed surveys and rendered them incomplete in 2001, 2003, 2004, and 2005. The problems also delayed completion of a survey in 2002. In 2004–05, numerous problems resulted in the vessels being operational for 80 days less than what the Coast Guard had planned.

In 2006, the put at each company on a month of an each control of the put granter, on is the put 36, the Minister of Fisheres and Oceans announced a limited fishery in an area that had been closed to fishing and that would have been included in the cancelled survey.

The vessel problems have significantly affected ongoing research programs, primarily by making it impossible to complete surveys. Long-term fish surveys of the same area at the same time are vital to determining the abundance and size of the biomass of individual fish stocks. This information is critical for the Department when it makes recommendations to the Minister about the size of the harvest of a broad range of groundfish and invertebrate species, including many of those supporting major fisheries in the Newfoundland Region.

#### Completion of initiatries

#### Coast Guard track record for completing initiatives is poor

- 4.40 We have observed that the Coast Guard has started numerous management initiatives, including some that respond to our recommendations. However, the Coast Guard's track record for completing these initiatives is poor. In the remainder of this section, we will discuss the status of some of the Coast Guard's most significant initiatives since our 2000 audit.
- 4.41 Special operating agency. On 12 December 2003, the government announced that the Coast Guard would become a special operating agency (SOA) within Fisheries and Oceans Canada. The rationale for establishing the Coast Guard as an SOA was not part of the government's announcement. Subsequently, the Coast Guard was tasked with clarifying how the SOA would be implemented, including new governance arrangements and accountability relationships, spending and other authorities, and strengthened management practices, such as performance measurement and reporting. On 21 March 2005, the government approved the Coast Guard's implementation plan and the designation of the Coast Guard as an SOA effective 1 April 2005.
- 4.42 As of 30 June 2006, the Coast Guard had completed fewer than 40 percent of the tasks within the SOA implementation plan's deadlines. The implementation was supposed to be largely complete by 30 September 2006. Many tasks remain outstanding in planning,

management information, and performance measurement and reporting—all issues addressed in our 2000 and 2002 reports.

- **4.43** The Coast Guard's SOA implementation plan has proven to be overly optimistic given that no additional funding was provided for implementation, and it depended on significant human resource and informatics support from the Department.
- **4.44** Fleet Management Renewal Initiative. The Coast Guard carried out its Fleet Management Renewal Initiative in response to our recommendations in 2000. It produced a project report in December 2002 and an action plan, to be implemented by 31 March 2005, that included
  - proposed changes to the fleet governance structure;
  - a coordinated approach to program delivery in the Atlantic region;
  - stronger direction from headquarters to the regions (based on the organization that existed at the time);
  - an integrated planning process to maximize vessel usage; and
  - a clear financial framework for the fleet's funding and accountability.
- **4.45** We found that the Coast Guard has not yet fully implemented many items in the action plan:
  - A standard regional fleet organization has been approved in principle but has not been implemented.
  - Fleet operational planning is still short-term.
  - Client service agreements have not been finalized.
  - A fleet pricing policy has not been approved.
  - Information systems are not integrated.
  - Reporting to clients on the fleet's performance, including its cost, is poor.
  - Opportunities still exist for increased regional cooperation.
- 4.46 As we noted in our 2000 report, these fundamental elements need to be in place to hold the fleet accountable for delivering efficient and effective services to its clients. We have also noted that when it reported to us on the status of recommendations, the Coast Guard indicated that it considers this initiative complete, despite our conclusion that many items remain outstanding.

- 4.47 Integrated Technical Services Strategy Project. In April 2000, the Coast Guard launched its Integrated Technical Services (ITS) Strategy Project. Its purpose was to develop and implement a national life-cycle materiel management system, which would ensure that Coast Guard assets are available, reliable, safe, and are provided at the lowest life-cycle cost. The main components of the ITS Strategy Project
  - a nationally consistent organizational structure with the appropriate capacity for delivering technical services,
  - materiel management information systems to support life-cycle management processes and procedures, and
  - life-cycle management processes and procedures to ensure the delivery of nationally consistent technical services.
- 4.48 The ITS Strategy Project is about two years behind schedule and the completion date has been changed to 31 March 2007. When the project is complete, it is expected that
  - practices, processes, procedures, and information systems will be developed and deployed;
  - accountability for delivery of technical services will be defined;
  - managers will be able to make informed decisions about managing and delivering technical services to the fleet and marine
- 4.49 However, considerable work remains to be done. For example, as of 30 June 2006, standard engineering and maintenance manuals were only in the early stages of development, and a standard organizational structure was planned for November 2007.
- 4.50 In addition, the Maintenance Information Management System—which the Department originally approved in 1997, at a total estimated cost of \$7.9 million—is not yet fully implemented. It was to be completed by February 2000. In June 2001, the Department approved additional funding of \$5.37 million for its completion.
- 4.51 A 2006 external review of the System found that less than 30 percent of the maintenance work that the system was supposed to control was actually being recorded and the accuracy of its inventory information was less than 50 percent. The review estimated that the System would not be fully implemented before 2011, and the additional cost would be more than \$7 million.

**4.52** The Director General, Integrated Technical Services recently reported the following to the Commissioner of the Coast Guard about the importance of life-cycle management:

The need to introduce national life cycle materiel management is underscored by the condition of, and the current cost of, owning and operating CCG's ships, shore-based systems and equipment, and fixed and floating aids to navigation. Many of the catastrophic failures that have occurred over the past several years were avoidable. And while the recapitalization of any asset base is critical, the various failures have not been caused by age alone, but by the lack of even the most fundamental materiel management system.

**4.53** We are concerned that the Coast Guard is being overly optimistic about implementing its ITS Strategy Project by 31 March 2007.

#### Efforts to modernize

#### Coast Guard recognizes the need to modernize

4.54 In our previous reports, we observed that the Coast Guard needed to respond to rapid and accelerating technological change that was having a significant impact on marine navigation. We also observed that the fleet was aging and that the organization needed to improve the way it manages human resources.

#### Modernization of marine navigational services has been slow

- 4.55 Increasingly, navigational services provided to mariners are moving towards modern electronic and information-based services. Traditional physical aids, such as buoys, are still necessary, but the number and the type of navigational aids are changing as mariners adopt modern technology. The Coast Guard is moving in this direction; however, we found it has not managed the transformation well, and change is slow.
- **4.56** A modern marine navigation system has the following potential benefits:
  - Electronic positioning and monitoring can improve safety, by giving mariners a high level of assurance about their position and the position of other nearby vessels.
  - The new technology requires less support, which saves money. Maintaining physical infrastructure is costly and requires helicopters, technicians, and large vessels.

- Systems such as the Automatic Identification System can contribute to maritime security by providing Canada's security establishment and other programs with information about who is using Canada's waterways.
- 4.57 Need for an integrated plan. The 2004 Departmental Assessment and Alignment Project's final report concluded that the Coast Guard needed to modernize marine navigational services, through technology-based productivity improvements and greater use of partnerships. This modernization is now a cornerstone of the Coast Guard's rejuvenation strategy. However, the organization has not clearly articulated how it will achieve this broad modernization objective.
- 4.58 Each of the Coast Guard's marine navigational program areas, such as aids to navigation and marine communications and traffic services, has its own approach to managing and modernizing its activities. However, these program areas are linked and depend on each other. In addition, the Coast Guard's fleet and technicians deliver and support these program areas and they represent the largest cost of the marine navigational system. The Coast Guard marine navigational services are still not planned for or delivered in an integrated fashion and this is a barrier to achieving the modernization objective.
- 4.59 Marine Aids Modernization project. Since 1996, the Coast Guard has undertaken an ongoing Marine Aids Modernization project. In 2002, we reported that "the Coast Guard is making progress but is not moving as quickly as anticipated . . ." In this audit, we examined the progress the Coast Guard had made on the third phase of the project. Again, we observed some progress, but we also found that the Coast Guard had not met any of the modernization project's targets. We found that the modernization project's strategies and targets were not realistic, because they did not address four major barriers to change.
- **4.60** Firstly, many of the modernization project's desired results require regulatory or operational policy changes. However, the Coast Guard is still developing a plan that sets out what changes need to be made in both areas.
- **4.61** Implementing these new technologies depends on mariners having modern electronic equipment, but not all mariners are currently required to have such equipment. Regulations require small and mid-sized fishing vessels to carry limited navigational equipment, such as a compass and sounding line. Recreational boaters operate

under similar requirements. The Coast Guard's policies for providing navigational aids (marine aids) largely reflect these minimal regulatory requirements. While the Coast Guard continues to deliver services designed to meet the needs of these users, through traditional navigational aids, it is also investing in new technologies to support mariners that have adopted the new technology.

- 4.62 The Coast Guard has stated that it will reduce the number of traditional navigational aids. However, the actual number of aids deployed now is about the same as it was in 2002. The transfer of all marine safety regulatory policy responsibilities to Transport Canada will require the Coast Guard to work with that department to ensure that future modernization initiatives are realistic and achievable.
- 4.63 Secondly, the Coast Guard has not developed adequate strategies for gaining the support of stakeholders or communities affected by the removal or reduction of existing outdated services. Stakeholders or communities have few reasons to support changing these services even if they do not contribute significantly to marine safety. The new electronic and information-based services require less physical infrastructure and fewer people. Therefore, the Coast Guard faces the challenge of winning support to replace outdated services while, at the same time, requesting funding to implement new technologies.
- 4.64 Thirdly, the financial savings the Coast Guard proposed were not realistic. For example, as part of the government's expenditure review process from 2003 to 2005, the Coast Guard estimated that the modernization project would produce savings of \$15 million. The Coast Guard could not provide us with support for this estimate, except to say that \$7.5 million would come from each of its fleet and technical services. It had not developed a plan to eliminate or reduce activities and, therefore, achieve the proposed savings. Coast Guard officials believe that eliminating staffed light stations was to have been the single, largest source of savings. The February 2005 Budget announced a gradual reduction of funding for navigational aids that would begin in the 2005–06 fiscal year and would grow to \$14.5 million in ongoing savings by the 2008–09 fiscal year. But the Budget also stated that this reduction would not be achieved by the elimination of light stations and foghorns.
- **4.65** Finally, the modernization project did not take into account the complexity, inter-relationships, and vested interests of the regional operations that deliver these services. There are no client service agreements, which are a form of accountability arrangement, between the aids to navigation program area that is responsible for carrying out

the modernization project and the regional operations that deliver the service. In the end, no one is held accountable when the modernization project's desired results are not achieved.

- 4.66 The Coast Guard's information systems do not give it the performance and cost information it needs to track the costs and savings of the modernization project. Fisheries and Oceans Canada and the Coast Guard are aware that there will be significant costs to ensure that remote sites, such as staffed light stations, meet health, safety, and environmental requirements. However, they have not planned or budgeted for this requirement.
- 4.67 While the modernization project fundamentally concerns modernizing the way navigational aids are provided, there is no national, coordinated research and development program to ensure that decisions about adopting new technology are based on a systematic approach designed to ensure national acceptance. Certain regions refuse to use some new technology because they believe it has not been proven that it will be reliable or that it will save money for their individual operations.
- 4.68 Recognizing that it failed to achieve its goals in the modernization project's third phase, the Coast Guard has recently developed a new initiative (AtoN 21) to refocus its modernization efforts, including the introduction of modern technologies.
- **4.69 Introducing new technology.** The Coast Guard is introducing new technology to support marine navigation. However, overall progress is slow and the organization is not following an integrated approach.
- 4.70 For example, the Coast Guard is developing a national Automatic Identification System, an international safety requirement that will contribute to maritime security. The System is expected to cost \$29 million, including \$1.5 million in preliminary studies and testing. The Coast Guard began developing it in 2002, anticipating its completion in the 2007–08 fiscal year. The St. Lawrence Seaway and many international jurisdictions already have fully operational automatic identification systems in place.
- 4.71 At the time of our audit, the Coast Guard had not yet worked out how to integrate the System's output with the existing vessel traffic management information system that it used to monitor vessel traffic. The Coast Guard identified integration issues in 2005, but had not resolved them, largely because of internal disputes between the Coast Guard technical teams responsible for the two systems. The Coast

Guard has recently informed us that it intends to resolve the issue by modifying its vessel traffic management information system to interface with the System. The Coast Guard expects the project will be providing information to marine security operations centres by the 2008 deadline.

- 4.72 As it considers and introduces new navigational systems and technological improvements, the Coast Guard needs to assess the navigational risks these systems address. It also needs to weigh their anticipated performance against existing systems, and assess the way the technologies will work together as well as with future systems. We found that the Coast Guard has still not implemented an approach to ensure regular risk assessments are conducted for major waterways.
- 4.73 Any integrated plan for introducing new technology has to include ways to reduce or eliminate obsolete or redundant technologies. As noted in previous sections of this report, the Coast Guard has had great difficulty reducing redundant infrastructure, such as light stations, that provided traditional services. Consequently, new technologies that are expected to improve effectiveness, while reducing costs, are added to existing services; and, rather than saving money, they end up costing more.

#### Coast Guard aging fleet needs to be renewed

- **4.74** The Coast Guard's fleet is aging. In our 2000 report, we observed that the Department's Long-Term Capital Plan did not present a realistic picture of the fleet's long-term capital needs.
- 4.75 Many of the challenges that existed for the fleet in 2000 still exist today—and the vessels are six years older. About 28 percent of the vessels are beyond their estimated useful lives of 30 years, and about 18 percent are between 25 and 29 years old. The Coast Guard has reported that the advancing age of its vessels is affecting their reliability and ability to meet program demands cost-effectively. The following examples of fleet performance support this contention:
  - From 2002–03 to 2005–06, vessels operated for 87 percent of the days the fleet had planned to have them at sea.
  - From 2002–03 to 2005–06, unplanned maintenance, as a percentage of planned service delivery, increased from 3.7 percent to 5.5 percent; about 166 extra operating days were lost.

- From 2000–01 to 2005–06, annual vessel maintenance expenditures increased from about \$26 million to \$39 million—an increase of 50 percent.
- 4.76 In 2003, the Coast Guard completed a long-term fleet requirements analysis that included recommendations for reinvestment in the Coast Guard fleet until 2020; one of the recommendations was to reduce the number and types of vessels. Subsequently, the Coast Guard assessed vessel conditions to prioritize replacements. It developed a vessel replacement schedule that, if followed, would cut the overall size of the fleet from 108 vessels to 95 and reduce the number of vessel types from 30 to 14.
- 4.77 The Coast Guard sought approval from the government to procure the first 10 of the replacement vessels it requires between 2005-06 and 2010-11. The February 2005 Budget allocated a total of \$276 million to procure six new vessels to be delivered by the 2009–10 fiscal year—two vessels for offshore fishery research and four mid-shore patrol vessels to support fisheries enforcement. The first of these new vessels is now scheduled to arrive in the 2010-11 fiscal year.
- 4.78 As of June 2006, the Coast Guard's vessel replacement plan is called Fleet Renewal Plan 2006 to 2030. We are concerned that the vessel replacement schedule in that plan is already outdated and
  - Given a typical lead time of at least five years to obtain approval and acquire or construct a vessel, the Coast Guard is quickly falling behind its replacement schedule. The plan proposes replacing ten vessels by 31 March 2011, four of which have not been approved by the government.
  - The existing schedule indicates most vessels will be replaced long after they have exceeded their estimated useful lives. For example, although the estimated useful life of an icebreaker is 30 years, the current plan shows the Coast Guard will replace icebreakers when they are between 40 and 48 years old.
  - The Coast Guard has not clearly articulated its modernization plans for marine navigational services, based on using new technologies and contracting out services. As this plan is fleshed out, the number and design of vessels servicing navigational aids could change significantly.
  - The plan calls for the replacement of mid-shore patrol vessels that enforce fisheries regulations with larger vessels that have more crew. While the new vessels will also support maritime security

and search and rescue activities, their overall operating and maintenance costs will be substantially higher. It is not clear whether fisheries enforcement will be able to finance the higher operating and maintenance costs of the new vessels.

#### Human resource management remains a problem

- **4.79** The Coast Guard's biggest single expense is in human resources. As the organization changes, the number of people it employs, and their skills, will also change. A comprehensive plan for human resources is expected to be a major component of the strategy to modernize marine navigational services and renew the fleet.
- **4.80** Most of our original observations about the management of human resources come from our 2000 audit of the Coast Guard's fleet of large vessels. Therefore, we expected to find that the Coast Guard had either implemented improvements or made substantial progress. Instead, we found the following about issues we raised in 2000:
  - There still is no integrated human resource plan. Fisheries and
    Oceans Canada is currently developing just such a plan for the
    whole Department, including the Coast Guard, in response to the
    Public Service Modernization Act and the Management
    Accountability Framework.
  - The Coast Guard has been working for several years on a human resources plan for seagoing fleet personnel to ensure that the organization has enough qualified officers and crew to meet future needs. The plan is not finished. The Coast Guard has identified its long-term requirements for officers and admissions levels required at the Coast Guard College.
  - Collective agreements continue to be complex. A 2000
     arbitration award doubled the leave entitlement of ships officers,
     thus increasing costs and scheduling complexity. In 2003, the
     Coast Guard issued detailed administrative guidelines to ensure
     consistent administration and interpretation of the ships officers'
     collective agreement.
  - Vessel crewing practices have remained largely the same.
     Managers want to make changes, but implementing them would require the union and members to accept them. The Coast Guard has not yet developed a strategy aimed at ensuring that employees understand and accept the reasons for changes in vessel crew complements.

- The amount of shore-based support to the fleet has not changed significantly since 2000.
- The Coast Guard's past executive staff performance agreements were not structured to ensure that managers were accountable for achieving the organization's objectives, plans, and priorities. By 30 June 2006, three months after the start of the fiscal year, the Coast Guard had not finalized 2006-07 performance agreements.
- The fleet has made progress in creating competency profiles for shore and seagoing personnel. However, the exercise is not expected to be complete until April 2007.

#### Coast Guard role in maritime security

#### Coast Guard role is evolving

- Since the September 11, 2001 terrorist attacks on the United States, the Canadian government has enhanced maritime security in Canada. The Coast Guard's role in maritime security is to support other government departments. It does so by making its vessels
- 4.82 The fleet's role in supporting maritime security is evolving and has not yet been clearly defined by government. Between 2001–02 and 2005-06, the Coast Guard received \$27 million in increased capabilities through an "on-water" presence. This funding has been absorbed by the regular fleet operations without direction from headquarters on what is to be achieved by increasing the on-water presence.
- 4.83 We found that information that the government reported on the number of days of fleet activity that resulted from the Coast Guard's maritime security funding—does not agree with the Coast Guard's information system. In addition, the collected information did not make it clear whether the vessels were at sea or were tied to the wharf. One region was not recording fleet maritime security activities at all.
- 4.84 In addition to the funding described above, the government is allocating other resources to the Coast Guard for maritime security initiatives. For example, the Coast Guard has received authority to acquire four new mid-shore patrol vessels to improve security in the St. Lawrence Seaway-Great Lakes system in addition to the four midshore fisheries patrol vessels discussed in paragraph 4.77. Also, the Automatic Identification System will provide information to the government for maritime security purposes.

**4.85** It is not yet clear what results the government expects from the maritime security funding for the fleet. As the Coast Guard invests in new information technologies and renews its aging fleet, it needs to continue to work with other departments and clarify those expectations, so that it can make appropriate capital investment and operating decisions, and account for how the funds are spent.

# Reasons for unsatisfactory progress

- **4.86** We believe there are a number of fundamental reasons for the Coast Guard's unsatisfactory progress:
  - The Coast Guard's "can do" philosophy leads it to accept assigned duties even though there is no realistic way it can successfully deliver. This can be seen in the special operating agency (SOA) implementation, where an already stretched management team took on more responsibility without extra resources. As a result, many elements of the SOA implementation plan are still unfinished, well after the expected completion date.
  - The organization does not prioritize. In our 2000 report, we commented that the Coast Guard would have to prioritize when it addressed the many issues we raised. Instead, the Coast Guard set up project teams to address all of our recommendations at once.
     Because of the large number of issues and limited management capacity, the initiatives stalled at various stages of completion.
  - There is a lack of organizational and individual accountability. The Coast Guard has made commitments to deliver or complete initiatives. But it has not assigned clear organizational and individual roles and responsibilities, established performance expectations, ensured those expectations are balanced with the capacity to deliver, and reported the results, internally and externally, in a credible fashion.

#### **New Coast Guard initiatives**

- **4.87** Towards the end of this audit, the Coast Guard began several initiatives designed to help it manage more effectively. Changes included
  - restructuring management committees to emphasize national policies and encourage a corporate culture,
  - establishing draft priorities for the 2006–07 fiscal year,
  - conducting a comprehensive review of the Coast Guard's activities, costs and funding,
  - establishing a 2006–07 business planning process with a three-year horizon, and

- completing individual performance agreements that reflect the organization's priorities.
- 4.88 In addition, the Coast Guard renewed its focus on completing its designation as a special operating agency (SOA), according to the SOA implementation plan. It is too early to see results from these initiatives.
- **4.89** Recommendation. The Coast Guard should establish priorities for improvement, set clear achievable goals for those priority areas, allocate sufficient, appropriate resources, and plan and implement the changes by holding managers and organizational units accountable for results.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts both the analysis and overall observations of the Auditor General in this report. In particular, we agree with the recommendation that the Canadian Coast Guard would achieve greater success in its effort to resolve issues by developing realistic plans with achievable goals, sufficient resources, and clear management accountabilities.

Prior to learning the findings of the Auditor General's report, the Department recognized that the Coast Guard's progress in becoming an effective special operating agency was slow and that management improvements were required. In this context, the Coast Guard completed an internal review earlier this year, which identified many of the same issues raised in this report. A realistic and incremental approach is now being developed to address these matters over the longer term, beginning with a manageable number of key priorities as identified in our Business Plan. Expectations and accountability for results will be clearly articulated to ensure success.

Efforts to establish the Coast Guard as an effective national institution are well under way, with progress on fleet renewal, the re-introduction of its external national advisory board, and the modernization initiative to identify the right mix of aids to navigation for users.

The Canadian Coast Guard is proud of its long record of providing quality service to Canadians. Each and every day, the Coast Guard's search and rescue efforts save lives; aids to navigation, icebreaking, and maritime communications and traffic services ensure that goods arrive safely at their destination; effective marine environmental response efforts protect our waters; and partnerships with other agencies ensure ongoing maritime security in Canada.

#### Conclusion

- 4.90 The Coast Guard has not made satisfactory progress in implementing the recommendations of our December 2000 Report, Chapter 31, Fleet Management, and our December 2002 Report, Chapter 2, Contributing to Safe and Efficient Marine Navigation. We have identified a number of factors that have contributed to this lack of progress in making necessary changes in the management and delivery of the Coast Guard's marine navigational and fleet services.
- **4.91** In addition, the Coast Guard has not made adequate improvements in its:
  - cost-effectiveness of service delivery,
  - · consistency of national program design and delivery,
  - performance reporting and accountability,
  - integration of services,
  - · use of life cycle management, and
  - management of human resources.
- **4.92** The Coast Guard's role in supporting maritime security is becoming clear for its marine navigational system, but it is not yet clear what results the government expects from additional funding for the fleet.
- **4.93** In the February 2006 Budget, the government approved \$99 million in supplemental funding to the Department, \$39 million of which was designated for the Coast Guard. While the supplementary funding will help the Coast Guard deal with increases in fuel costs and funding shortfalls in the short-term, the organization's inability to understand and control its costs does not provide us with confidence that this is a permanent solution.

#### About the Audit

#### **Objectives**

Our objectives were to determine if the Canadian Coast Guard has implemented or made satisfactory progress in implementing the recommendations of our December 2000 Report, Chapter 31, Fleet Management, and our December 2002 Report, Chapter 2, Contributing to Safe and Efficient Marine Navigation. In particular, the audit focused on the extent to which the Coast Guard improved in the following areas:

- · cost-effectiveness of service delivery,
- · consistency of national program design and delivery,
- · performance reporting and accountability,
- integration of services,
- use of life cycle management, and
- · management of human resources.

We also assessed the clarity of the Coast Guard's new role in support of maritime security and the extent that operational and capital planning for the fleet and marine navigational services reflect this new role.

#### Scope, approach, and criteria

Our scope included all recommendations made in our December 2000 Report, Chapter 31 and our December 2002 Report, Chapter 2, except for those related to the Office of Boating Safety and responsibility for the *Navigable Waters Protection Act*. The government transferred these functions to Transport Canada in December 2003.

Our approach focused on auditing the Coast Guard's self-assessments of its progress in addressing our recommendations. We also assessed the extent to which the Coast Guard implemented or made progress in implementing the actions it identified in response to our 2000 and 2002 recommendations.

We also examined the government's responses to recommendations from reports of the House of Commons standing committees on Public Accounts and Fisheries and Oceans as they related to our reports and recommendations. We focussed on progress made in implementing the actions the government identified in its responses.

We used criteria from the original audits as they remained relevant to the follow-up audit. These criteria were relevant for assessing the Coast Guard's role in maritime security because the Department's "safe and accessible waterways" strategy encompasses this role.

We expected the Coast Guard to

• clearly define its mandate, including role and responsibilities, within Canada's marine transportation system, as it relates to safe and accessible waterways;

- specify the nature of the activities and levels of service, for both fleet and marine navigational services, that fulfill its mandate, meet client needs, and comply with Canada's laws and international agreements;
- establish strategic outcomes to meet its major responsibility for ensuring safe and accessible waterways;
- report to Parliament on its results, including its financial performance;
- develop and implement appropriate management systems and strategies and establish accountability measures to manage its fleet and navigational support services in a cost-effective manner;
- specify, in quantifiable terms, the short- and long-term needs government departments have for fleet services;
- obtain the funding necessary to deliver these services; and
- employ the appropriate number and type of people required to staff the fleet and marine navigational services in a cost-effective manner.

#### Audit work completed

Audit work for this chapter was substantially completed on 30 June 2006.

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#### Appendix List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation

4.89 The Coast Guard should establish priorities for improvement, set clear achievable goals for those priority areas, allocate sufficient, appropriate resources, and plan and implement the changes by holding managers and organizational units accountable for results (4.17–4.88)

#### Response

Fisheries and Oceans Canada accepts both the analysis and overall observations of the Auditor General in this report. In particular, we agree with the recommendation that the Canadian Coast Guard would achieve greater success in its effort to resolve issues by developing realistic plans with achievable goals, sufficient resources, and clear management accountabilities.

Department recognized that the Coast Guard's progress in becoming an effective special operating agency was slow and that management improvements were required. In this context, the Coast Guard completed an internal review earlier this year, which identified many of the same issues raised in this report. A realistic and incremental approach is now being developed to address these matters over the longer term, beginning with a manageable number of key priorities as identified in our Business plan. Expectations and accountability for results will be clearly articulated to ensure success.

Efforts to establish the Coast Guard as an effective national institution are well under way, with progress on fleet renewal, the re-introduction of its external national advisory board, and the modernization initiative to identify the right mix of aids to navigation for users.

The Canadian Coast Guard is proud of its long record of providing quality service to Canadians. Each and every day, the Coast Guard's search and rescue efforts save lives; aids to navigation, icebreaking, and maritime communications and traffic services ensure that goods arrive safely at their destination; effective marine environmental response efforts protect our waters; and partnerships with other agencies ensure ongoing maritime security in Canada.

### Report of the Auditor General of Canada to the House of Commons—February 2007

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A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 5
Passport Services—Passport Canada



Office of the Auditor General of Canada





# A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 5
Passport Services—Passport Canada



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

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## Chapter

5

Passport Services
Passport Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the control of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the control of the audit we also draw upon the standards and practices of other disciplines.

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# Passport Services Passport Canada

## **Main Points**

#### What we examined

Passport Canada (formerly the Passport Office) is responsible for enforcing the Canadian Passport Order, which specifies who is entitled to a Canadian passport and what conditions must be met. We examined Passport Canada's progress in addressing our audit recommendations from April 2005, when we reported that it was struggling to meet heightened expectations for security and growing demands for service. In this follow-up audit, we assessed the measures that Passport Canada has taken in these areas since our previous audit.

#### Why it's important

Confidence in the passport (that the bearer is who he says he is) is critical to trade, the economy, and travel across borders. Passport Canada is responsible for issuing Canadian passports to eligible Canadian citizens and for revoking Canadian passports when entitlement has been compromised. In 2005–06 it issued an unprecedented volume of passports (over three million), as the proportion of Canadians holding a passport approached 40 percent.

#### What we found

- Overall, Passport Canada has made satisfactory progress toward addressing our recommendations in the relatively short interval since our 2005 audit. However, much work is left to do in order to resolve weaknesses that remain in the critical areas of security and verification of identity.
- Examiners now have appropriate tools and training to determine whether identity documents are authentic. Almost all key employees with access to critical assets had been cleared to the Secret level. But controls over access to the system are still weak. This means that people not authorized to issue passports could trigger the issuance process. Further, Passport Canada has not yet carried out a detailed assessment of security risk. Nor does its recently developed quality assurance program address a key area—how examiners arrive at the decision to grant a passport.
- Missions now print only emergency travel documents, and temporary
  passports with security features similar to those on passports printed
  in Canada. Related training has been developed for consular staff,
  based on domestic training material.

- Passport Canada has received good cooperation from Correctional Service Canada and the RCMP, which have information it needs to determine passport entitlement. It has significantly enlarged its "watch list" for names of people on parole or incarcerated, information it has used to refuse applications or investigate them further. However, it still has problems to resolve before it can process information from the Canadian Police Information Centre (CPIC) database that would allow it to check for those charged with serious crimes.
- Passport Canada relies on provincial and territorial registries and on Citizenship and Immigration Canada (CIC) for data to verify birth and citizenship information on passport applications. It is currently accessing this data instantaneously through electronic links as part of a complex project with two provinces and two federal partners. However, Passport Canada has not yet established necessary links to identity information with the other provinces and CIC. Efforts to do so continue.
- Passport Canada established a Project Management Bureau that brought appropriate discipline to the way improvement projects are managed. However, the large number and complex nature of the projects represent a challenge for an organization of Passport Canada's size, and there is a risk that a significant delay in any project could seriously impair Passport Canada's plans and operations.

Passport Canada has responded. Passport Canada has agreed with

2

Special operating agency—An agency within a government department that has greater management flexibility in return for certain levels of performance and results.

Canadian Passport Order—An authority, approved by the Governor in Council, that specifies who is entitled to a Canadian passport and the various conditions for issuing, refusing, or revoking passports.

Certificate of identity—A document that is issued to persons legally landed in Canada for less than three years who are stateless or who are unable to obtain a national passport for a valid reason.

## Introduction

- **5.1** Passport Canada is a special operating agency reporting to Foreign Affairs and International Trade Canada. It finances its operations from the user fees it collects. In 2005–06, Passport Canada
  - issued about 3 million passports,
  - collected revenues of \$196 million that financed its operations,
  - collected \$63 million in consular fees that were deposited to the government's Consolidated Revenue Fund, and
  - reported a net loss of \$3 million.
- **5.2** Passport Canada is responsible for enforcing the Canadian Passport Order when issuing travel documents such as passports and certificates of identity. Issuing the 24-page blue passport makes up over 98 percent of its business.

#### What we found in 2005

- **5.3** In our April 2005 Report, Chapter 3, we reported that the Passport Office (now Passport Canada and referred to as such throughout this chapter) was struggling to meet expectations for better security and increased demands for service.
- **5.4** The process of deciding who is entitled to a passport needed significant improvements. Passport Canada was unable to effectively carry out all its responsibilities under the Canadian Passport Order. We found weaknesses in
  - monitoring of the quality of examiner decisions on who was entitled to a passport,
  - risk assessment,
  - · security clearances for examiners,
  - review and documentation of the information supplied by guarantors,
  - control of access to the passport issuing system,
  - the completeness and accuracy of Passport Canada's watch list, and
  - the way investigations were managed.
- **5.5** As well, quality assurance and control measures for Passport Canada's process to determine passport entitlement were lacking.

Examiners did not have the proper tools to carry out their responsibilities efficiently, and consular officers issuing passports at missions abroad needed more thorough training. In addition, passports issued abroad were produced in less secure passport booklets.

- Passport Canada had established, achieved, and published certain service standards for clients. However, it had not reported its performance on certain major service standards or its performance information about security issues.
- Passport Canada did not have management systems and practices in place, including an integrated plan for human resources that would prepare it to meet future challenges effectively. Its
  - set priorities for its many improvement projects according to
  - integrate planning of new offices (location, building, or employees) into its strategic framework; and
  - consider the impact of all improvement projects on one other.
- 5.8 Passport Canada and Foreign Affairs and International Trade Canada did not apply the regulations for ongoing consultation on service standards and how they relate to passport and consular fees. Passport Canada was not ready to carry out the new legislation on user fees because it lacked reliable information on the true cost of services.

#### Events since 2005

- In the fall of 2005, Passport Canada representatives appeared before the House of Commons Standing Committee on Public Accounts to answer questions on our audit report and to present a comprehensive action plan for dealing with our recommendations. In May 2006, the committee tabled a report to Parliament on the hearing that included additional recommendations. The government responded to the committee's report in August 2006, toward the end of the examination phase of our follow-up audit. The committee's recommendations and our comments on the government's response to those recommendations are in Appendix A.
- 5.10 Since our 2005 audit, Passport Canada has embarked on an ambitious program of renewal. It has made some key organizational changes and undertaken major projects that will have a significant impact on the way it conducts business.

- **5.11** The approval of Passport Canada's budgetary plans was delayed by the election of a new federal government. Further, in July 2006, the Agency's Chief Executive Officer who had championed many of the changes and actions stemming from our recommendations was transferred to Foreign Affairs and International Trade Canada. Despite disruptions caused by these events, Passport Canada management expressed its continued commitment to implementing its action plan.
- 5.12 During 2005–06, Passport Canada processed an unprecedented 3 million passports. In comparison, it processed about 2.7 million passports in 2004–05 and 1.7 million in 2001–02. Passport Canada forecasts growth to 3.8 million passports by 2008–09. Nearly 40 percent of Canadians now hold a passport.
- **5.13** At the time of our 2005 audit, Passport Canada served Canadians through 30 offices across the country and 49 selected Canada Post Corporation outlets. Currently, there are 33 offices and over 90 Canada Post and Service Canada outlets. Consular staff continue to serve Canadians at missions abroad. However, all regular passports are now printed in Canada.

#### Focus of the audit

- **5.14** This follow-up audit examined the actions that Passport Canada took to address the findings and recommendations in our 2005 Report. We assessed its progress in carrying out each recommendation as either satisfactory or unsatisfactory, taking into consideration the complexity of each one, Passport Canada's dependence on partners, and the relatively short time elapsed. We focused on four main areas:
  - security and identity verification,
  - service to the public,
  - management of improvement projects, and
  - establishment of passport fees.
- 5.15 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# Observations and Recommendations

5.16 We expected that Passport Canada would have made significant progress in applying the recommendations in our April 2005 Report, Chapter 3. Overall, we found progress to be satisfactory, but there is much left to do. The Agency continues to face significant challenges in its attempts to balance security, service, and cost. Some of our 2005 recommendations called for longer-term action that we did not expect to be fully operational yet.

#### Verifying security and identity

#### Security risk has not been assessed

- 5.17 In 2005, we recommended that Foreign Affairs and International Trade Canada and Passport Canada
  - conduct a detailed assessment of the risk related to passport examination and security functions;
  - identify important gaps in the way the Agency fulfills its mandate under the Canadian Passport Order, and
  - take appropriate action (Exhibit 5.1).
- **5.18** We believe this assessment is essential to identifying Passport Canada's priorities on passport examination and security issues.
- 5.19 Although Foreign Affairs and International Trade Canada and Passport Canada conducted a joint study on how passports are issued abroad, management at Passport Canada advised us that the more comprehensive assessment covering domestic operations was still being done at the end of our audit.

The recommendations of our April 2005 Report have been paraphrased throughout this chapter to enhance readability and to reflect name changes of the responsible organizations

Exhibit 5.1 Progress on conducting a comprehensive risk assessment is unsatisfactory

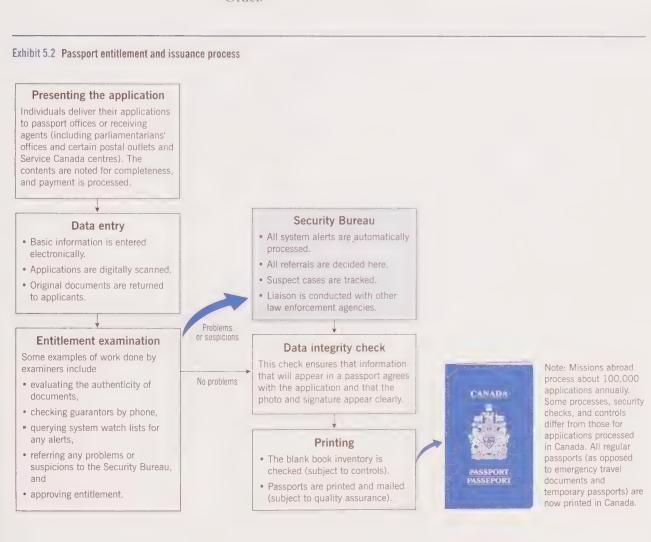
Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should conduct a detailed security risk assessment of the passport examination and security functions, identify important gaps in the fulfillment of its mandate under the Canadian Passport Order, and take appropriate action. (paragraph 3.58)	

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and
  the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

**5.20** In our recommendation, we included examples of issues that the risk assessment should address. Those issues were identified because of weaknesses we observed during our audit. Passport Canada's action on those issues and our audit observations are described in the following sections.

# Security clearance levels of Passport Canada employees are being reviewed and updated

**5.21** Examiners are the key officers in the passport entitlement and issuance process (Exhibit 5.2). Examiners scrutinize each application and assess whether applicants are who they say they are and, if so, whether they are eligible for a passport under the Canadian Passport Order.



- 5.22 In 2005, we reviewed employee records to determine whether examiners had the level of security clearance required by the Government Security Policy (Exhibit 5.3). We found that most examiners had clearance at the "enhanced reliability" level. Some of these examiners were involved in all steps in issuing passports (full-job concept), from processing application documents to printing passport booklets using sensitive material and equipment. These examiners in full-job concept roles should have had the next level of clearance—the "secret" level. We expressed concern about this situation and that it was contrary to government policy. Ensuring that all staff are cleared to the appropriate security level is important to protect passport integrity.
- 5.23 Passport Canada uses Treasury Board policy as its standard for security levels. As a result of our 2005 audit, Passport Canada accelerated its planned review of clearance levels for all categories of employees.
- 5.24 At the time of our follow-up audit, almost all examiners with access to critical assets, according to the Government Security Policy, had been cleared to the secret level. In addition, almost all employees working in printing centres who may handle blank booklets and IT staff who have access to the system that issues passports had also obtained their secret clearance. Pending completion of clearing all employees whose jobs require access to critical assets, local offices had taken steps aimed at allowing only those with secret security clearances and related job responsibilities access to critical assets.

Auditor General's April 2005 Report, Chapter 3

Recommendation Progress

Passport Canada should address examiners' security clearances.
(paragraph 3.58)

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Measures are being developed to ensure the quality of entitlement decisions

- **5.25** In 2005, we found that Passport Canada lacked a quality assurance system to support an examiner's decision on whether an applicant is entitled to a passport and whether that decision was made according to procedure (Exhibit 5.4).
- 5.26 Following our recommendation, Passport Canada developed a quality assurance program that it implemented in July 2006. Unfortunately, the program did not address the key issue of entitlement decisions. To accurately verify the information in passports and to assess how closely it was examined, the information entered into Passport Canada's system should be compared with the original application and original identity document such as the birth certificate or citizenship card. The original application is examined at the passport office counter and the original identity document is promptly returned. The new program assesses the accuracy of an applicant's information only after the documents are examined, the data entered into the system, and the applicant is no longer available for questioning. The program does not clearly specify a formal procedure for examining the original identity documents or how the decision to grant a passport is made.
- **5.27** At certain passport offices, we noted local quality assurance processes that compare the accuracy of input data and the printed passport. Those processes also do not assess how the critical decision on entitlement is made.
- **5.28** Passport Canada advised us that it continues to work on its quality assurance program and that the target date for full implementation is before 2008.

Exhibit 5.4 Progress on controls for entitlement is unsatisfactory

Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should introduce quality assurance and control measures for its key entitlement operations to ensure that the Agency conducts proper internal checks on initial decisions and properly controls access to critical assets. (paragraph 3.58)	0

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Examiners have received key tools for examining documents

- 5.29 In our 2005 audit, we found that examiners rarely used tools such as ultraviolet lights or magnifying glasses to examine the authenticity of identification documents because those tools were either not available or not readily accessible (Exhibit 5.5).
- **5.30** Following our audit, Passport Canada made these tools and related reference materials readily accessible to all examiners. Further, the Agency organized training on document authentication from the Royal Canadian Mounted Police (RCMP). The RCMP trained selected staff at Passport Canada headquarters who, in turn, trained their colleagues in the regions.

Auditor General's April 2005 Report, Chapter 3

Recommendation

Progress

Passport Canada should provide examiners with the proper tools to discharge their responsibilities. (paragraph 3.58)

Satisfactory — Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory — Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Targets for guarantor checks are now being met

- 5.31 Guarantors are either members of certain professional associations or individuals with certain accreditations who confirm the identity of an applicant by signing a declaration and a photograph of the applicant. Each guarantor must have known the individual for at least two years. Applicants who do not know an eligible guarantor must have their applications notarized. The signature of a guarantor is one of the main controls used to ensure that an applicant's identity is authentic.
- **5.32** In 2005, we found that guarantor checks (validating guarantors' credentials and information provided by them) were not being performed and documented according to Passport Canada's policy (Exhibit 5.6). One reason given, for one category of applications that we sampled, was that this requirement was misunderstood. We also found that the Agency could not demonstrate that it had met its objective of performing guarantor checks for a significant percentage of applications.

- **5.33** The Agency issued a job aid in February 2005 that described scenarios where a guarantor check is mandatory and set a target percentage of applications for which guarantor checks should be performed.
- **5.34** We examined a sample of applications from several categories of applications for which guarantor checks are mandatory, according to the job aid. We found that for a small number of applications in each mandatory category, Passport Canada was still not performing and documenting the checks as required. The Agency is tracking statistics on checks on a monthly basis. Those statistics show that all regional operations were generally achieving the target as of July 2006.

Auditor General's April 2005 Report, Chapter 3

Recommendation

Progress

Passport Canada should address the conduct and recording of guarantor checks. (paragraph 3.58)

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Confirming vital statistics remains difficult for examiners

Exhibit 5.6 Progress on guarantor checks is satisfactory

- 5.35 Confirming the data that is critical in establishing Canadian citizenship, such as data on a birth or citizenship certificate, can be a long process. It takes contact and cooperation with Citizenship and Immigration Canada (CIC) or the relevant provincial registry, on a case-by-case basis. Establishing direct electronic links to provincial registries and CIC would allow examiners to confirm that data immediately and automatically, and it would help Passport Canada authenticate these documents. It would also allow the Agency to check fraudulent documents against reported deaths.
- 5.36 Passport Canada has not yet been able to establish the links it needs to assure the integrity of basic identification data, but the Agency continues to work with federal and provincial partners to this end (Exhibit 5.7). The Agency has been promoting the National Routing System (NRS). In the pilot phase, electronic links were established between Passport Canada, two federal partners (Statistics Canada and the Canada Revenue Agency), and two provinces. Several provinces and federal organizations participated as observers. The pilot

phase officially ended in March 2006. That project involved Passport Canada employees at headquarters checking some vital statistics electronically with the Alberta and British Columbia vital statistics organizations after examination was completed by employees at local offices. This practice was being continued with those two provinces.

- 5.37 Citizenship and Immigration Canada and the other provinces did not participate in the pilot project. In 2005, CIC advised Passport Canada that it could not participate beyond the role of an observer at that time, partly due to its new Global Case Management System being under development. CIC began analyzing a number of electronic link options in the summer of 2006. Both Passport Canada and CIC advised us after the examination phase of this audit that discussions on electronic link options have intensified. However, no option has been decided on and no target dates have been set.
- **5.38** Although the National Routing System project is an important initiative for establishing information-sharing platforms, it is a complex project and may not be retained as the preferred option. There is a lot left to do. Without timely cooperation among CIC, all the provinces and territories, and Passport Canada, examiners will continue to have difficulty confirming vital statistics.

Exhibit 5.7 Progress on efforts to establish links to other databases is satisfactory

Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should work toward establishing electronic links with Citizenship and Immigration Canada and the provinces that could automatically validate the identity data on an application. (paragraph 3.58)	•
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	the issue, an
Unsatisfactory—Progress is unsatisfactory, given the significance and comple	xity of the

#### Controlling access to the system that issues passports remains weak

5.39 In 2005, we found that the access granted to the employees who operate the automated system that issues passports was poorly controlled (Exhibit 5.8). According to accepted IT security practice, we expected those individuals to have a unique user ID with a system profile that allows them to perform only the tasks for which they are authorized. Instead, we found duplicate, system, and generic user IDs.

We also found certain profiles with powerful rights and functions that could allow the holder to produce a passport without further checks. We anticipated that Passport Canada would have resolved these problems by the time of our follow-up audit.

- 5.40 Passport Canada undertook a process to clean up user IDs. The process was ineffective. We found that duplicate, system, and generic user IDs still exist. Some individuals who are not examiners still have the critical access rights or profile that allow them to trigger the production of a passport without authorization and independent verification.
- 5.41 The Agency also launched a monthly sampling procedure to confirm the validity and necessity of an employee's access. This procedure was also ineffective because the way that it was being conducted could not enable the detection of fake user IDs.

Exhibit 5.8 Progress on controlling access to the system that issues passports is unsatisfactory

Auditor General's April 2005 Report, Chapter 3		
Recommendation	Progress	
Passport Canada should address system profiles. (paragraph 3.58)	0	
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	of the issue, an	
Unsatisfactory—Progress is unsatisfactory, given the significance and complissue, and the time that has elapsed since the recommendation was made.	exity of the	

# **Enforcing certain provisions of the Canadian Passport Order continues to be a challenge**

- 5.42 Section 9 of the Canadian Passport Order lists the criteria under which the Agency may refuse to issue a passport to an applicant. Such individuals may have been charged with an indictable offence, imprisoned or forbidden to leave Canada, or convicted of an offence under Section 57 of the *Criminal Code*. Section 10 lists similar reasons for which a passport might be revoked.
- **5.43** Before approving an application, examiners check all applicants against the watch list from Passport Canada's information system. This automatic check is the main security control in the approval process.
- **5.44** In 2005, we reported that with the information available, Passport Canada could not properly enforce certain provisions of sections 9 and 10 of the Canadian Passport Order (Exhibit 5.9).

- 5.45 In 2005, Passport Canada had about 73,000 entries on its watch list. The list was created using information from a variety of sources (mostly on an informal basis) without automated data sharing. We acknowledged Passport Canada's dependence on other government departments and agencies for compiling this information. However, we highlighted that government departments and agencies maintain several databases that the Agency could access to make its watch list more complete. We cited the Canadian Police Information Centre (CPIC) database, which lists individuals wanted or on probation, as an example. We commented on the large discrepancy between the number of individuals on the CPIC database and the number on Passport Canada's watch list. Passport Canada had access to the database through a terminal at its headquarters, but the information had to be queried manually.
- 5.46 Passport Canada has made significant progress on a number of fronts to improve its watch list, but there remain a number of issues that Passport Canada must address to ensure that examiners can effectively enforce sections 9 and 10 of the Canadian Passport Order.
- 5.47 Since our 2005 Report, Passport Canada has signed two key memoranda of understanding with Correctional Service Canada (CSC) and the RCMP that include provisions for sharing information. Passport Canada also made administrative arrangements with Citizenship and Immigration Canada and the Canada Border Services Agency for some watch list information.
- sharing information about federal offenders in prison or on parole. This automated exchange of information increased the number of entries on the watch list by about 23,000. As a result of this initiative and other initiatives, Passport Canada's watch list held about 147,000 entries by the end of March 2006. The Agency uses this information to assess new applicants. Using the new information on the watch list provided by CSC, Passport Canada was preparing 34 refusal letters to passport applicants at the end of July 2006. At the time of our audit, it was still evaluating the hundreds of potential matches generated by the first set of imported data and was considering revoking several hundred passports. However, the lack of dedicated staff available to conduct this task was slowing its efforts in enforcing sections 9 and 10 of the Canadian Passport Order.
- **5.49** By July 2006, Passport Canada had also tested automated data sharing with CPIC. A pilot project resulted in a number of cases that required investigation. After a preliminary assessment, the Agency

concluded that without a number of technological and other refinements to its evaluation of the data, it would need to greatly increase the number of specially trained investigators to follow up on cases identified through CPIC. The main reason was the estimated time to identify the pertinent records and evaluate the non-standardized information input into the database by all law enforcement agencies. Following this preliminary assessment, Passport Canada decided that it would identify more specifically what it needed to use data from CPIC, and it would develop a more precise definition of "criminality" for its watch list. This work is in the preliminary stages, and the Agency plans to complete it by the end of the 2006–07 fiscal year. Until Passport Canada finds ways to effectively get and use data related to criminality, it cannot effectively enforce sections 9 and 10 of the Canadian Passport Order.

Exhibit 5.9 Progress on improving the watch list and sharing information is satisfactory

Auditor General's April 2005 Report, Chapter 3		
Recommendation	Progress	
Passport Canada should address the completeness and accuracy of its watch list and methods used to share data with other federal and provincial agencies. (paragraph 3.58)	•	
Passport Canada should work with Citizenship and Immigration Canada, the RCMP, and the Canada Border Services Agency to develop memoranda of understanding for the sharing of information vital to the enforcement of the Canadian Passport Order. (paragraph 3.58)	•	
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	the issue, ar	
Unsatisfactory—Progress is unsatisfactory, given the significance and complex issue, and the time that has elapsed since the recommendation was made.	ity of the	

#### Addressing weaknesses in investigating sensitive cases is a longer-term project

5.50 The Security Bureau of Passport Canada collects information and conducts investigations on any security concerns, including potential matches against Passport Canada's watch list. At the time of our 2005 audit, the Bureau kept some manual records of its investigative activity, but those records did not allow the Agency to assess the outstanding workload, the rate at which investigations were concluded, or personnel requirements. We saw opportunities for more effective collaboration between Passport Canada and the RCMP (Exhibit 5.10).

- **5.51** Passport Canada signed a memorandum of understanding with the RCMP in December 2005 that calls for it to refer four specific types of cases to the RCMP for investigation and, where appropriate, prosecution.
- 5.52 The investigative unit within the Security Bureau implemented a database that tracks its operational activities. This database is an interim solution until a comprehensive case management system can be adopted. The case management system should allow the Security Bureau to
  - better manage risk of passport fraud (for example, looking for patterns or focusing on higher-risk cases);
  - better focus and prioritize investigations of security-related cases;
  - better analyze, manage, and report on security-related activities and intelligence; and
  - improve the general administration of the security program.
- 5.53 Passport Canada anticipates that this system will be ready by May 2008.

Auditor General's April 2005 Report, Chapter 3

Recommendation Progress

Passport Canada should address the management of investigations. (paragraph 3.58)

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Risks associated with consular staff issuing passports at missions abroad are being addressed

5.54 We reported in 2005 that Passport Canada relies on Foreign Affairs and International Trade Canada consular staff to examine documents, approve applicants, and print and issue over 100,000 passports abroad each year.

- **5.55** We noted two key differences between mission and domestic passport services that posed an increased security risk:
  - Consular staff did not consistently receive the same formal training or have qualifications equivalent to those of domestic examiners (Exhibit 5.11).
  - The missions printed passports using older technologies and older passport booklets with weaker security features.
- 5.56 Passport Canada responded by returning the printing of passports to Canada in 2006. The majority of passports are now being printed in Canadian printing centres using the latest booklets and printing technologies available to the Agency. Missions now only print temporary passports and emergency travel documents. Temporary passports processed at missions are now printed on booklets with security features similar to those on regular passport booklets printed in Canada. From the end of January 2006 to the end of June 2006, the Foreign Affairs and International Affairs consular staff processed about 48,000 passport applications. Of those, missions printed about 2,000 temporary passports and emergency travel documents, or less than five percent of processed applications.
- 5.57 Passport Canada developed a training program for consular staff based on domestic training material. By June 2006, the program was being tested at a few missions. The Agency also established a new Foreign Operations Division within the Security Bureau to act as the primary liaison with clients, such as missions and Foreign Affairs and International Trade Canada headquarters, on all passport-related activities involving Canadian applicants abroad.

Auditor General's	April 2005 Report, Chapter 3	
Re	commendation	Progress
Passport Canada should provid consular officers. (paragraph 3	e more thorough examiner training for 58)	•
	factory, given the significance and complexity e the recommendation was made.	of the issue, and
	isatisfactory, given the significance and compapsed since the recommendation was made.	lexity of the

#### Serving the public

- 5.58 In our 2005 audit, we examined how Passport Canada developed and reported on standards, costing, and contingency planning for crises. We examined these activities against the Treasury Board's requirements and the Treasury Board-approved document from 1990 (when Passport Canada was established as a special operating agency) that outlined the Agency's accountability for its performance.
- We reported weaknesses that included insufficient reporting on Passport Canada's security and corporate support activities (for example, information technology and human resources), inconsistent reporting on the quality of phone communications with clients, and little contingency planning for crises. We recommended that Passport Canada develop and report on additional service standards (Exhibit 5.12); develop risk management practices and short-term plans to deal with extreme fluctuations in demand for service; and examine how it delivers service to the public, influences demand, improves cost-effectiveness, and enhances security measures (Exhibit 5.13).

New measures for reporting on performance are ready, and additional standards are being developed

- 5.60 We examined Passport Canada's 2005–06 Annual Report. It covers performance on new standards of service for call centres (verbal communication with applicants) and correspondence (written communication with applicants).
- Passport Canada is developing a new "balanced scorecard" structure for measuring performance, including measures for verifying identity and assessing security activities. Future annual reports should report on some of these measures.

Exhibit 5.12 Progress on reporting standards of service is satisfactory Auditor General's April 2005 Report, Chapter 3 Progress Recommendation Passport Canada should develop and report on additional service standards, including information services such as email, other correspondence, and telephone, and track and control related costs. (paragraph 3.75) Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made. Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

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#### Projects dealing with extreme fluctuations in demand are under way

- **5.62** The Agency has been using a new forecasting model over the past year that has been accurate to within five percent nationally. There are greater variances by region and by local office. An accurate forecast is important because it is used to determine the level of resources allocated to each local office. Large variances between the forecast and actual demand can affect the level of service to the public.
- **5.63** To assess Passport Canada's contingency plans for dealing with extreme fluctuations in demand, we used the United States Western Hemisphere Travel Initiative (WHTI) as an example, since it was at the forefront of US/Canada border issues in 2005. At the time of our audit, the WHTI legislation required Canadians to carry a valid passport when crossing into the US by air, beginning in 2007.
- 5.64 During our visits to local offices, we asked about their plans to deal with the potential increase in demand triggered by the WHTI. Although Passport Canada's corporate forecasting model takes into account the potential impact of WHTI on a national and local basis, most local offices did not have formal contingency plans. It was not clear whether they would be able to deal satisfactorily with a sudden, significant rise in the number of applicants.
- 5.65 Some local offices have used innovative approaches to try to influence demand. For example, several offices in the western region publish wait times for the day, average wait times by weekday, and average wait times by month on the Internet. This information can help applicants decide on the best time to come to the office in person, even out the workload for the office, and help maintain standards of service for wait times. Such initiatives help Passport Canada deal more effectively with demand. The Agency continues to address its readiness to deal with sudden fluctuations, and it is working on a national project to distribute the workload among offices.
- 5.66 Passport Canada is also working on a process to deal with renewal of passports. It is intended to be a more simplified and convenient process for qualified applicants and to increase efficiency. Passport Canada invited selected passport holders to participate, and it is assessing the results to potentially extend the opportunity to all passport holders. The Agency intends to focus resources on higher-risk cases while facilitating service for low-risk cases.

Exhibit 5.13 Progress on handling fluctuations in demand and examining service to the public is satisfactory

Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should develop risk management practices and short-term plans to deal with extreme fluctuations in demand for service. (paragraph 3.75)	
Passport Canada should examine its service delivery methods we view to influencing demand while improving cost-effectiveness are enhancing security measures. (paragraph 3.75)	
Satisfactory—Progress is satisfactory, given the significance and co the time that has elapsed since the recommendation was made.	mplexity of the issue, an
<ul> <li>Unsatisfactory—Progress is unsatisfactory, given the significance a issue, and the time that has elapsed since the recommendation was</li> </ul>	

#### Managing improvement projects

- 5.67 In 2005, we recognized that Passport Canada faced considerable challenges in balancing adequate service at a reasonable cost against the demands of addressing security and verifying identity. The Agency was undertaking a number of large projects that would affect the way it conducts business. The majority of these projects will require years to complete and may require more funding than Passport Canada can collect from user fees. We examined the impact that the management of these projects would have on Passport Canada's readiness to balance service, cost, security, and identification issues (Exhibit 5.14).
- 5.68 We reported that management had not prioritized these projects, had no formal criteria for ranking or sequencing, and had not fully analyzed the impact of concurrent improvement projects on one other. The Agency had no long-term, consolidated human resources plan to address the impact of projects on the jobs of its employees. In our view, Passport Canada did not have adequate management systems and practices in place to meet future challenges.
- 5.69 We recommended that Passport Canada develop an integrated human resource plan without delay (Exhibit 5.15). We also recommended that its management systems be improved to
  - set priorities for its many projects by ranking them according to approved criteria;
  - integrate planning of new offices (location, building, and employees) into its strategic framework; and
  - assess the impact of improvement projects on one another.

#### Significant steps have been taken to better manage key strategic projects

- **5.70** Passport Canada's primary response to our recommendation was to establish a Project Management Bureau that brought satisfactory changes to the way projects are managed. The Bureau established new processes that include key management criteria. Clear, precise, and measurable project objectives and goals are being set to meet corporate objectives. The approval process includes a Project Approval Board and a Project Review Board. As we recommended, project proposals and documents identify and assess alternatives, identify required resources, state key assumptions and constraints (including identifying and assessing risk), and consider integration with ongoing projects. This new management process organizes the way projects are managed and allows Passport Canada to prioritize the major ones.
- **5.71** Passport Canada has a large number of significant projects under way that present a considerable challenge for an organization its size. We examined 3 of the Bureau's 14 ongoing projects and found that they were integrated with other projects in some ways and addressed cross-impacts with other organizational issues.
- **5.72** The majority of projects are too new to fully assess. We requested status reports on 12 projects and found that all were on budget but only 5 were on schedule. Of the 5 higher-priority projects, 4 were behind schedule. We cannot predict whether these projects will be completed on time and on budget. However, there is a risk that a significant delay in any project may reduce the effectiveness of other improvement initiatives.

Exhibit 5.14 Progress on prioritizing projects and integrating planning is satisfactory

Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should improve its management systems to enable it to	
prioritize its many improvement initiatives by ranking them according to approved criteria, and	•
<ul> <li>integrate the planning of new offices into its strategic framework and consider the mid- to long-term impact of all improvement initiatives on each other.</li> </ul>	•
(paragraph 3.82)	

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

5.73 At the end of our follow-up audit, Passport Canada had just started developing an integrated human resource plan. However, since our 2005 audit, it has undertaken other important human resource projects. For example, it established new units such as the Foreign Operations Division and the Project Management Bureau. It also reclassified examiners' jobs to better reflect their roles and responsibilities.

Exhibit 5.15 Progress on developing and implementing integrated human resource plans is unsatisfactory

Auditor General's April 2005 Report, Chapter 3		
Recommendation	Progress	
Passport Canada should review, complete, and implement integrated human resource plans without delay. (paragraph 3.82)		
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	f the issue, ar	
Unsatisfactory — Progress is unsatisfactory, given the significance and comple	exity of the	

### Establishing passport fees

Revolving fund—A fund provided for a particular purpose that is periodically replenished by transfers from other funds of as in this case, by user fees

- 5.74 Passport Canada operates on a revolving fund basis and must generate sufficient revenues through user fees charged for various travel documents to meet its expenses. Currently, the fee for the most commonly issued, 24-page, adult passport in Canada is \$87. Of this amount, \$62 supports the Agency's operations through its revolving fund, and the remaining \$25 recovers the cost of consular services provided by Foreign Affairs and International Trade Canada at missions abroad and in Canada. Passport Canada does not provide or manage consular activities.
- 5.75 In the spring of 2004, Parliament passed new legislation governing user fees. This legislation imposes additional rules for transparency on how costs justify fees and what levels of service are expected. We reported that Passport Canada was not ready to comply with the legislation because it lacked reliable information on the cost of its activities. We recommended that the Agency improve its method of consulting with interested groups, establish appropriate mechanisms for resolving complaints about proposed fees (Exhibit 5.16), and develop reliable and necessary information on cost (Exhibit 5.17).
- **5.76** Passport fees are set by regulation. In 2005, we reported that Passport Canada did not comply with some of the key provisions of the regulatory process when it increased fees in 2001. We also found that it did not follow Treasury Board conditions for consular fees.

#### Passport Canada is better prepared to comply with the user fee legislation

5.77 In our follow-up audit, we found that Passport Canada had developed a plan to ensure that the requirements of the new legislation on user fees are addressed for the portion of the fee (\$62) that covers passport services. The plan includes consulting with the Treasury Board Secretariat; however, it is on hold while the Agency explores other potential funding options from the government.

Exhibit 5.16 Progress on complying with the new legislation on user fees is satisfactory

Recommendation	Progress
In consultation with the Treasury Board of Canada Secretariat and Foreign Affairs and International Trade Canada, Passport Canada should review the process for setting the passport fee and consulting with clients on service levels to ensure compliance with the <i>Financial Administration Act</i> , user-fee legislation, and Treasury Board policies and guidelines. (paragraph 3.95)	•
Passport Canada should improve its method of client consultation to comply with new user fee legislation and ensure that it has an appropriate mechanism for resolving fee disputes. (paragraph 3.96)	•

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

5.78 In 2006 Passport Canada developed a comprehensive activity-based costing model that allows it to evaluate the cost of its activities in detail. The Agency is currently assessing how this information can help it manage its business and support potential changes to its user fees.

Exhibit 5.17 Progress on developing reliable information on costs is satisfactory

Auditor General's April 2005 Report, Chapter 3	
Recommendation	Progress
Passport Canada should develop reliable cost information tied to service standards to justify current user fees and any future increases to user fees. (paragraph 3.96)	

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# Conclusion

- 5.79 Overall, we are satisfied with Passport Canada's efforts to address our recommendations and with the progress it has made in the short time since our 2005 Report. There are still some weaknesses in the critical areas of security and verification of identity.
- 5.80 Passport Canada still has much to accomplish to balance service, security, and costs. To preserve the integrity of passports, it is critical that the Agency establish electronic links to the databases of partner organizations on vital statistics and criminality.
- Passport Canada is attempting to simultaneously carry out several substantial projects that will significantly reform the way it conducts business. However, a significant delay in any of these projects could seriously impair Passport Canada's plans and operations. The Agency will need the continued support of Foreign Affairs and International Trade Canada, the Treasury Board Secretariat, and other government departments to ensure that it reaches its goals.
- Recommendation. In its annual report, Passport Canada should detail the progress it is making in carrying out the recommendations made by the Office of the Auditor General and the House of Commons Standing Committee on Public Accounts. It should describe its action plans and include target dates for completion and explanations for any variance with previous plans.

Passport Canada's response. Passport Canada has expended a great Report of the Auditor General. The Agency regards the necessary take time to implement due to their complexity. Passport Canada

The Passport Canada Action Plan, put in place to address the specific initiatives and contains target dates for delivery. The plan is dates and explanations of variance with previous plans, will be included as an appendix in the 2006-07 Annual Report.

For the most part, Passport Canada has addressed the six Public Accounts. The two outstanding recommendations relate to the need for more complete reporting in the Annual Report and a review

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of the Agency's funding arrangement. Progress on these two items will also be reported in the 2006–07 Annual Report.

Canadians can be confident that improvements have been made and will continue to be made to ensure the security and integrity of the Canadian passport.

# About the Audit

#### **Objectives**

The mum objective of our audit was to assess the progress that Passport Canada had made in responding to the recommendations in our April 2005 Report, Chapter 3.

We wanted to determine whether Passport Canada had developed and implemented effective controls for issuing passports, and achieved reasonable levels of service at a reasonable cost.

#### Scope and approach

In our audit, we assessed the following:

- the security measures followed and verification of identity done by Passport Canada examiners and employees,
- the quality of service to the public that Passport Canada considers integral to its operations,
- · management systems and processes that the Agency uses to manage major projects, and
- the Agency's readiness to comply with new legislation setting out user fees.

Our approach included reviewing documents from the regional offices and headquarters, interviewing management and employees (including visits to nine local offices in Western Canada and the Greater Toronto Area), sampling databases, performing quantitative and qualitative analyses, and observing operations.

#### Criteria

The criteria for the audit are the same as those for our 2005 audit and are based on the following documents—the Canadian Passport Order, Passport Services Fees Regulations, the *Financial Administration Act*, Treasury Board policies and guides, and Passport Canada's manuals and guides.

We expected Passport Canada to have adequate procedures and processes in place to ensure that passports are only issued to eligible Canadian citizens and that reasonable levels of service are established, achieved, and reported on. We also expected Passport Canada to have followed a formal project management process to improve service delivery and complied with the legislation setting out user fees.

#### Audit work completed

Audit work for this chapter was substantially completed on 15 August 2006.

#### Audit team

Assistant Auditor General: Richard Flageole

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# Appendix A Recommendations of the House of Commons Standing Committee on Public Accounts and comments of the Office of the Auditor General

Recommendation number	Report of the Standing Committee on Public Accounts (PAC) — May 2006	Office of the Auditor General comments on the government's response
1	That Passport Canada report no later than 1 September 2006 to the Standing Committee on Public Accounts on the progress it has made in implementing actions outlined in its action plan drawn up in response to the recommendations and observations made by the Auditor General of Canada.	The government submitted its response to the Report of the Standing Committee on Public Accounts on 16 August 2006. The response included a description of action taken in response to the committee's recommendations. It also included Passport Canada's Update on Status of Action Plan to Address the Report of the Auditor General—June 2006. This status report assesses Passport Canada's action on the recommendations made in our April 2005 Report, Chapter 3.
Ž.	That Passport Canada include, in its performance report for the period ending 31 March 2006, a detailed discussion of the problems raised by the Auditor General of Canada in her April 2005 Report and the status of actions being taken in response. Where appropriate, a discussion of outcomes must also be provided, and this reporting must continue until all corrective measures have been implemented fully.	Passport Canada's draft 2005–06 Annual Report lists initiatives undertaken to address the Office of the Auditor General's observations.
		The draft Annual Report describes what has been done but does not fully describe what is outstanding; nor does it always indicate target timelines for those outstanding items.
	That Passport Canada design a financial contingency fund and identify a target date for the establishment of such a fund when it reports progress on the implementation of its action plan in September 2006.	In its 16 August 2006 response, the government stated that a financial contingency fund had been created. A corporate reserve is to be established by setting aside a minimum of 2.5 percent of forecasted revenues. Access to the reserve should occur only as needed, based on Passport Canada's contingency strategy. We did not audit this initiative.
i.	That Passport Canada review the adequacy of its current funding arrangement in light of rising costs associated with the need to develop, install, and operate new security technologies and that it use this review as a basis for discussions with Foreign Affairs Canada regarding potential changes to its funding policy. The review should examine the possibility of	The government's response stated that a comprehensive study of Passport Canada's funding issues would be undertaken. As part of the study, the government will examine, among other issues, the financial and security implications of a 10-year validity passport. The government response did not provide a time frame for completing the study.
	issuing passport renewals for 10-year periods.	At the time of our audit, Passport Canada was conducting a study.

Recommendation number	Report of the Standing Committee on Public Accounts (PAC)—May 2006	Office of the Auditor General comments on the government's response		
5	<ul> <li>That Passport Canada strengthen its action plan by including the following clarifications:</li> <li>a target date for full implementation of an appropriate quality assurance system for the work done by examiners;</li> <li>the timeframe for the establishment of an operational system across jurisdictions to verify identity along with an indication where accountability will lie for its implementation;</li> <li>target dates for establishment of electronic links for security data sharing in place under new memorandums of understanding (MOU); and</li> <li>a target date for implementation of an improved cost system along with an indication of when stakeholders will be consulted on the costs and benefits of consular and passport fees.</li> <li>These elements must be incorporated into the action plan prior to 1 September 2006 and be referenced in the updated progress report to be given by Passport Canada at that time.</li> </ul>	Passport Canada's June 2006 update on the status of its action plans lists actions taken and planned for the three fiscal years starting with 2005–06 to address our April 2005 Report's observations and recommendations. This chapter reports on the progress made in addressing our observations and recommendations.		
6	That Passport Canada ensure that local staff processing passport applications in Canadian embassies and consulates satisfy the same security standards that examiners must meet in Canada, and that they receive the same quality and frequency of training.	This chapter comments on some key Passport Canada initiatives to improve control over passport issuance at missions, including the return to Canada of printing and new training initiatives for Canada-based staff. It does not address security standards and their implementation abroad.		

# Appendix B List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter.

#### Recommendation

5.82 In its annual report, Passport Canada should detail the progress it is making in carrying out the recommendations made by the Office of the Auditor General and the House of Commons Standing Committee on Public Accounts. It should describe its action plans and include target dates for completion and explanations for any variance with previous plans.

#### Response

Passport Canada has expended a great deal of effort to address the deficiencies identified in the April 2005 Report of the Auditor General. The Agency regards the necessary changes as work in progress; further improvements are planned but take time to implement due to their complexity. Passport Canada agrees to report progress in future annual reports.

The Passport Canada Action Plan, put in place to address the deficiencies outlined in the Auditor General's 2005 Report, outlines specific initiatives and contains target dates for delivery. The plan is reviewed and updated regularly. An updated Action Plan, with target dates and explanations of variance with previous plans, will be included as an appendix in the 2006–07 Annual Report.

For the most part, Passport Canada has addressed the six recommendations of the House of Commons Standing Committee on Public Accounts. The two outstanding recommendations relate to the need for more complete reporting in the Annual Report and a review of the Agency's funding arrangement. Progress on these two items will also be reported in the 2006–07 Annual Report.

Canadians can be confident that improvements have been made and will continue to be made to ensure the security and integrity of the Canadian passport.

# Report of the Auditor General of Canada to the House of Commons—February 2007

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A Message from the Auditor General of Canada









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2007



A Status Report
of the
Auditor General of Canada
to the House of Commons

**FEBRUARY** 

Chapter 6
The Management of the Social Insurance Number—
Human Resources and Social Development Canada



Office of the Auditor General of Canada



# 2007



# A Status Report of the Auditor General of Canada to the House of Commons

## **FEBRUARY**

## Chapter 6

The Management of the Social Insurance Number— Human Resources and Social Development Canada



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of

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# Chapter

6

The Management of the Social Insurance Number

Human Resources and Social Development Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance en	gagements set by the
we also draw upon the standards and practices of other disciplines.	

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# The Management of the Social Insurance Number

Human Resources and Social Development Canada

## **Main Points**

#### What we examined

A Social Insurance Number (SIN) is a unique nine-digit number used by any person who earns money through work, pays taxes, contributes to a pension plan, or uses any of a number of government services. SINs are issued and administered under the *Employment Insurance Act*, largely by Service Canada within Human Resources and Social Development Canada. How federal departments may collect and use the SIN is governed by legislation and the Treasury Board's privacy policies.

We looked at the progress the Department and the Treasury Board Secretariat have made in responding to our recommendations from 2002, when we reported that the Department (then Human Resources Development Canada) had not done enough to safeguard and strengthen the integrity of the SIN. We also reported that the policy on how federal organizations should use the SIN was unclear and open to different interpretations. In this follow-up audit, we assessed whether the Department and the Secretariat had taken satisfactory action to ensure the appropriate use of the SIN; to strengthen the process for issuing new SINs and replacement cards; to ensure the accuracy, completeness, and reliability of data in the Social Insurance Register; and to improve the investigation of SIN-related fraud.

## Why it's important

Several of the federal government's largest programs use the SIN. In the 2005–06 fiscal year, the SIN was used in issuing about \$12.5 billion in Employment Insurance benefits, about \$53.8 billion in Old Age Security and Canada Pension Plan benefits, and more than \$1.3 billion in Canada Student Loans. By law, anyone submitting income tax information to the Canada Revenue Agency must also use the SIN. This includes some municipal and provincial agencies, employers, banks, credit unions, and trust companies.

The importance of the SIN is clear from its widespread use both within and outside the federal government. For example, the Social Insurance Register is used to validate the identity of individuals applying for certain federal benefits. Confirming identity has taken on heightened importance in light of growing security concerns, identity fraud, and

use of the Internet and telephone for service delivery. Consequently, maintaining the privacy, security, and integrity of the SIN and the Register is critical in order to protect individuals, businesses, and government from SIN-related fraud.

#### What we found

- Overall progress in addressing our previous recommendations is unsatisfactory because two significant and long-standing issues remain unresolved, despite satisfactory progress in several other areas.
- The Department has made satisfactory progress in improving the way
  it issues SINs and identifies and investigates SIN-related fraud. It has
  strengthened the standards for establishing identity, citizenship, and
  proof of need before issuing a new SIN or a replacement card. It has
  also redesigned the process for issuing SINs and has taken steps to
  adopt a more risk-based approach to SIN investigations.
- While the Department has continued its efforts to improve the Social Insurance Register—the database containing the basic personal information provided by individuals who apply for a SIN—its progress is unsatisfactory. It has set no goals for the accuracy, completeness, and reliability of the data, and its measurement of data quality has been unsystematic and limited in scope. The Department therefore has limited assurance that the accuracy, completeness, and reliability of Register data are adequate, a concern we first raised in 1998. However, current efforts underway during this audit and plans to develop a comprehensive quality measurement and reporting system for the Register indicate that the Department is heading in the right direction to resolve this important issue.
- The policies that govern how federal departments may use the SIN are not clear. The current policies were issued by the Treasury Board under the *Privacy Act* in 1989. In 2003 the Treasury Board Secretariat completed a comprehensive review on the use of the SIN and data matching in the federal government. The review found several gaps in the existing policy framework, including a need for greater clarity concerning the use of the SIN for identity validation and data matching, a concern we first raised in 1998. However, due to other priorities, the Secretariat has not yet issued updated policies and guidelines. In the meantime the continuing lack of clarity has led to different interpretations and applications of the current policies on control of the SIN.

Human Resources and Social Development Canada, Service Canada and the Treasury Board Secretariat have responded. They have agreed with our recommendations and have committed to take action. Their responses are included throughout the chapter.

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### Introduction

- 6.1 Canadian citizens, permanent residents, and temporary residents with valid authorization to work in Canada are eligible to receive a Social Insurance Number (SIN). The SIN is a nine-digit number, unique to every SIN holder, and a person legitimately has only one number at a time.
- 6.2 SINs are the responsibility of the Canada Employment Insurance Commission as legislated by the *Employment Insurance Act*. The Commission has delegated the responsibility for issuing and administering SINs to Human Resources and Social Development Canada. Within the Department, Service Canada is responsible for operational policy, delivery, and administration of the SIN.
- **6.3** Several of the federal government's largest programs use the SIN. In the 2005–06 fiscal year, the SIN was used in issuing about \$12.5 billion in Employment Insurance benefits, about \$53.8 billion in Old Age Security and Canada Pension Plan benefits, and more than \$1.3 billion in Canada Student Loans. By law, anyone submitting income tax information to the Canada Revenue Agency must also use the SIN. This includes some municipal and provincial agencies, employers, banks, credit unions, and trust companies.
- 6.4 Although collection and use of the SIN by the federal government is authorized only under specific legislation and programs, there is no legislation that stops private sector organizations from requesting it. However, when asking for an individual's SIN, organizations must comply with the *Personal Information Protection and Electronic Documents Act*, which governs the protection, collection, use, and disclosure of personal information in the private sector.
- 6.5 The widespread use of the SIN both within and outside the federal government demonstrates its importance. The SIN is a key piece of information that may be used to obtain additional pieces of personal information; consequently the use, abuse, and misuse of the SIN may affect the administration of federal and provincial programs, as well as operations in the private sector. Maintaining the privacy, security, and integrity of the SIN is critical to protect individuals, businesses, and government from SIN-related fraud.
- **6.6** In 1998, the Office of the Auditor General reported problems in the way the SIN was managed. We conducted a follow-up in 2000 and reported that some improvements had been made. In 2002, we audited the integrity of the SIN again and found little further progress. The

Auditor General advised parliamentarians that we would re-examine the issue at a later date. This chapter provides a status report on the progress Human Resources and Social Development Canada and the Treasury Board Secretariat have made in addressing the observations and recommendations included in our 2002 audit of the Integrity of the Social Insurance Number.

#### What we found in 2002

- 6.7 In 2002 we reported that Human Resources Development Canada had been slow to address many of the observations and recommendations from our 1998 audit of the Management of the Social Insurance Number. Progress on some key issues had been limited and we concluded that the Department had not done enough to safeguard and strengthen the integrity of the SIN. Specifically, we noted the following:
  - Three departmental programs were using the SIN without the required Treasury Board authorization. As well, the Treasury Board direction on how and when to use the SIN within the federal government was unclear. Weaknesses also existed in activities to increase public awareness of how and when to use the SIN appropriately.
  - There had been limited progress in strengthening the process for issuing a SIN, for both a regular and a 900-series SIN (issued to an applicant who is not a Canadian Citizen or a permanent resident).
  - There had been limited progress in bringing the Register's reliability and completeness to an appropriate level. No standard for the quality of the data of the Social Insurance Register had been established, and problems with the integrity of the information in the database persisted.
  - There was no risk-based analysis of SIN-related activities and the level of effort for investigations was not necessarily based on risk. Despite some progress to provide investigators with better training and tools, improvements were still required.

#### Significant events since 2002

Following our 2002 audit the Public Accounts Committee and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities held hearings, issued reports, and made recommendations to improve the management of the SIN. These recommendations are included in Appendix A of this chapter.

- 6.9 In May 2005 the Service Canada initiative was established within Human Resources and Social Development Canada to deliver a growing number of services and benefits on behalf of federal departments and agencies. Service Canada intends to use the SIN and Social Insurance Register as a foundation to accurately and consistently identify individuals across its service channels. Since 2002 the Department has increased its use of the Register to validate the identity of applicants for several of the large social programs it delivers, including Employment Insurance, Old Age Security, and the Canada Student Loans Program. It uses the SIN to match information applicants provide to basic personal data in the Register to validate their identity.
- 6.10 The increasing use of the SIN and the Register to streamline service delivery and accurately identify individuals has implications for both privacy protection and program integrity. As the use of personal information increases, including the SIN and other information stored in the Register, protecting individual privacy rights becomes more critical. Additionally, a wider range of government benefits becomes accessible to individuals who are fraudulently using a SIN and other personal information that is not their own. As we observed in 2002 the SIN can play an important role in identity theft and fraud. There are indications that the incidence of identity theft has increased dramatically since our 2002 audit and it continues to be a major concern of consumer protection and law enforcement agencies. The Department has identified identity theft or fraudulent identities as a significant risk not only to the management of the SIN and the Register, but also to federal programs that rely on this information.
- Internet and telephone for service delivery have heightened the importance of confirming identity. In November 2002 the Federal/Provincial/Territorial Council on Identity in Canada issued a policy framework to guide processes for establishing identity by governments in Canada. One of the primary goals of the framework is to protect the Canadian public from identity theft and identity fraud. The Council suggested that government-issued documents should be based on an appropriate degree of assurance that the bearer is who he/she claims to be. It also highlighted the importance of foundation documents, such as provincial birth certificates and citizenship and immigration documents; strong verification processes; and the protection of privacy in establishing identity.

#### Focus of the audit

6.12 The objective of our audit was to assess the progress Human Resources and Social Development Canada and the Treasury Board Secretariat have made in responding to observations and recommendations contained in the 2002 audit of the Integrity of the Social Insurance Number. We looked at the progress made in response to each of the 10 recommendations made in our previous report. Specifically, we assessed whether the Department and the Treasury Board Secretariat had taken satisfactory action to ensure the appropriate use of the SIN; to strengthen the process for issuing new SINs and replacement cards; to ensure the accuracy, completeness, and reliability of the data in the Social Insurance Register; and to improve the investigation of SIN-related fraud.

6.13 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

## Observations and Recommendations

# Appropriate use of the Social Insurance Number

should manage personal information, including the Social Insurance Number (SIN). In 1989 the Treasury Board approved the Policy on Data Matching and Control of the Use of the Social Insurance Number (now included in its Policy on Privacy and Data Protection) to ensure that government organizations correctly applied the provisions of the *Privacy Act*. The policies also aimed to address two concerns: that the SIN would become a universal identifier, and that matching and linking of personal information, perhaps by using the SIN, represented a threat to individuals' privacy and therefore needed to be appropriately controlled.

Administrative purpose—Use of the SIN or other personal information about an individual in a decision-making process that directly affects that individual, for example, as part of

6.15 To address the first concern, the Treasury Board's Policy on Privacy and Data Protection confirmed the government's intention to prevent the SIN from becoming a universal identifier. Federal programs can use the SIN for administrative purposes only when specific legislation authorizes this use, or when the use meets all three of the following conditions:

a particular benefit In contrast, a nonadministrative purpose occurs when no decisions are being taken in relation to individuals, for example, for statistical, research, evaluation, or audit purposes

- it is directly related to a use authorized by legislation;
- it is related to pensions, income tax, or health and social programs; and
- it is authorized by the Treasury Board.

- **6.16** Since our 2002 audit new uses of the SIN and the Social Insurance Register in the federal government have occurred in ways consistent with the Treasury Board's Policy on Privacy and Data Protection, for example, through
  - changes to legislation or regulations, such as the 2004
     amendments to the Old Age Security Regulations, which allowed
     the use of the Social Insurance Register to determine the age and
     identity of applicants;
  - increased use under existing legislative authorities, such as the automated use of the Register to validate the identity of applicants for Employment Insurance; and
  - Treasury Board authorization to add new programs to the list of authorized uses, such as the Opportunities Fund for Persons with Disabilities, added in 2003.
- **6.17** Exhibit 6.1 lists the current federally legislated and Treasury Board-authorized uses of the SIN.
- 6.18 To address the concern about increased matching and linking of personal information, the Treasury Board's policy requirements for data matching included detailed procedures for federal organizations to follow when considering a data match. The requirements for analysis, consultation, and public notification aim to ensure that any match undertaken is necessary, and that its implementation is transparent to Canadians. In May 2002 the Treasury Board issued the Privacy Impact Assessment Policy, which effectively extended the policy on data matching by requiring federal organizations to assess the privacy implications of the design, implementation, and evolution of programs and services. This includes any new data matching activities or changes in the use of personal information, including the SIN.

#### Policy on the use of the Social Insurance Number has not been updated

**6.19** In 1998 we reported a critical gap between the framework for using the SIN and its current role in the federal government. In particular, we reported that controls and responsibilities over data matching needed to be revisited. In our 2002 audit we found that a lack of clarity remained concerning the appropriate ways to use the SIN, and whether or not it was being used simply as a file number or also as a means to validate identity. The Treasury Board Secretariat had not updated the policy guidance on the use of the SIN since 1989 and had not assessed how federal programs were using it. We reported, however, that the Secretariat planned to undertake a review of SIN use

**Data match**—The comparison of personal information obtained from different sources

#### Exhibit 6.1 Federally legislated and Treasury Board-authorized uses of the SIN

#### Federally legislated uses of the SIN

- 1. Employment Insurance Act
- 2. Income Tax Act
- 3. Canada Pension Plan and Regulations
- 4. Old Age Security Act and Regulations
- 5. Canada Student Loans (Canada Student Financial Assistance Act and Regulations; Canada Student Loans Act and Regulations)
- 6. Canada Education Savings Grants (Budget Implementation Act, 1998)
- 7. Canada Elections Act
- 8. Canadian Labour Standards Regulations (Canada Labour Code)
- 9. Labour Adjustment Benefits Act
- 10. War Veterans Allowance Act and Regulations
- 11. Canadian Forces Members and Veterans Re-establishment and Compensation Act
- 12. Farm Income Protection Act
- 13. Canadian Wheat Board Act
- 14. Fuel Tax Rebate (Excise Tax Act—Gasoline and Aviation Gasoline Excise Tax Application Regulations)
- 15. Goods and Services Tax (Excise Tax Act—Part IX)
- 16. Tax Rebate Discounting Act and Regulations
- 17. Family Support Orders and Agreements Garnishment Regulations (Family Orders and Agreements Enforcement Assistance Act)

#### Treasury Board-authorized uses of the SIN

- I readminimental interest of the incomment of the incomme
- 2. Income and Health Care programs (Veterans Affairs)
- 3. National Dose Registry (for occupational exposures to radiation) (Health Canada)
- 4. Rural and Native Housing Program (Canada Mortgage and Housing Corporation)
- Social Assistance and Economic Development programs (Indian and Northern Affairs Canada)
- Aboriginal Human Resources Development Strategy (Human Resources and Social Development Canada)
- 7. Opportunities Fund for Persons with Disabilities (Human Resources and Social Development Canada)
- 8. Tax case appeals (Canada Revenue Agency)
- Labour Adjustment Review Board (Human Resources and Social Development Canada)

Source: Treasury Board Secretariat

and expected to report the results in June 2003. It committed to making every effort to resolve any issues with the policy that the review identified.

- 6.20 Since then the Secretariat completed the review and prepared a comprehensive report in August 2003. The report contained a historic overview of the use of the SIN, a review of the use of numerical identifiers and data matching in other jurisdictions, and input from various stakeholders. It also included a self-reported inventory of SIN use by all federal organizations, and looked at why and how departments were using the SIN. Finally, it outlined a complete picture of the issues involved and the decisions that will have to be made to arrive at a policy framework on the use of SIN and data matching in the federal government.
- **6.21** The review identified various gaps in the policies and guidelines issued to federal government departments on the appropriate use of the SIN. Work therefore began in the fall of 2003 to develop new guidance. Based on input from an interdepartmental committee on SIN use and data matching, the Secretariat started drafting updates to the policy instruments. It also sought views from various departments and the Office of the Privacy Commissioner on issues and difficulties to address in the proposed revisions.
- 6.22 The Secretariat informed us that progress in updating the policy framework was delayed in 2004 to address other pressing policy issues. Officials also informed us that when work on the SIN policy framework began again in 2006, its scope had been expanded to include all Treasury Board privacy policies as part of the current Treasury Board initiative to review all its policies. Current plans are to complete the revisions to the policies controlling the SIN in the federal government in the 2007–08 fiscal year.
- **6.23** In our examination of the use of the SIN by Human Resources and Social Development Canada during this audit, we identified clear examples of the types of weaknesses in the policy framework that the Treasury Board Secretariat identified in its 2003 review. These examples specifically relate to the Department's increased use of the SIN and Social Insurance Register to validate identity—an activity that falls within the Treasury Board definition of a data match. In particular, we noted the following:
  - The Secretariat's 2003 review noted that the definition of a data match is not clear and that, consequently, evaluating compliance with the data matching policy is problematic. We found that the Department has applied the Treasury Board's policy requirements

for data matching inconsistently when implementing identity validations using the Social Insurance Register. When implementing a validation process for the Canada Student Loans Program, the Department acknowledged that the procedure was a data match and followed the requirements for analysis and consultation set out in the policy. However, when implementing a similar validation for the Old Age Security program, the Department indicated it did not consider the procedure to be a data match, and therefore did not follow the policy requirements.

- The Secretariat's 2003 review observed that the mechanisms for monitoring compliance with the Treasury Board's policy requirements for data matching were weak, particularly because they rely on self-reporting by departments. We found that Human Resources and Social Development Canada did not adhere to the public notification provisions when it implemented the Canada Student Loans Program identity validation process using the Register.
- 6.24 Although progress had been good between our 2002 audit and 2004, under the current schedule, ten years will have passed since we first raised concerns about the policy framework for the use of the SIN within the federal government, and five years will have passed since the Secretariat identified specific gaps before revisions to the policy framework are completed. We consequently assess progress in this area as unsatisfactory (Exhibit 6.2).

Exhibit 6.2 Progress in ensuring appropriate use of the SIN has been mixed

D	D
Recommendation	Progress
In its review [of the use of the SIN in the federal government], the Treasury Board Secretariat should look at why and how departments are using the SIN. (paragraph 1.38)	
Human Resources Development Canada should use the SIN only where authorized by the Treasury Board. (paragraph 1.37)	
Human Resources Development Canada should assess the public awareness of how and when to use the Social Insurance Number appropriately and should carry out public education efforts as needed. (paragraph 1.31)	•

the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### One program continues to use the Social Insurance Number without authority

- **6.25** In our 2002 audit we found that three programs delivered by Human Resources and Social Development Canada (then Human Resources Development Canada) were using the SIN without proper authority.
- 6.26 As explained in paragraph 6.15 the Treasury Board can authorize a specific program to use the SIN where its use meets certain conditions. In 2003 the Treasury Board Secretariat requested and was granted authorization to add to the list of authorized programs two of the three programs that were identified in 2002 as using the SIN without proper authority: the Opportunities Fund for Persons with Disabilities and the Aboriginal Human Resources Development Strategy.
- 6.27 At the time of this audit, the third program, Youth Initiatives, had not been granted authorization to use the SIN, but continued to do so. Draft submissions requesting Treasury Board authorization were prepared in the 2003-04 fiscal year; however, they were never finalized. Instead, the Youth Initiatives program was restructured to align it more closely to the broader Youth Employment Strategy, which involved other departments. The Treasury Board Secretariat indicated that it would address the use of the SIN by all departments involved in the Strategy as part of its 2003 review of the use of the SIN and data matching in the federal government. However, as indicated in paragraph 6.22, actions to address gaps identified in the review have not been completed. Department and Secretariat officials told us that a renewed effort was underway in late 2006 to obtain the necessary authorization for Human Resources and Social Development Canada's administrative use of the SIN in its youth employment initiatives. As shown in Exhibit 6.2, progress in this area is rated as unsatisfactory.
- 6.28 Recommendation. The Treasury Board Secretariat should
  - meet its commitment to update the policy framework governing the use of the SIN in the federal government by 31 March 2008, and
  - ensure that the policy instruments governing the use of the SIN in the federal government close the gaps identified in its 2003 review.

The Treasury Board Secretariat's response. The Treasury Board Secretariat is committed to ensuring that the personal information of Canadians is protected in accordance with the provisions of the *Privacy Act* and the requirements of the Policy on Privacy and Data

Protection, which governs use of the SIN and data matching by federal government institutions. As the Auditor General has noted, the Secretariat has already completed significant work on developing the comprehensive report in 2003. Extensive consultations have been undertaken with other federal institutions through a Secretariat-led Interdepartmental Committee and, as well, the views of the Office of

#### A code of practice to encourage appropriate use of the Social Insurance Number has been developed

- 6.29 To combat the proliferation of inappropriate use of the SIN outside the federal government, we expected that, since our 2002 audit, Human Resources and Social Development Canada would have assessed the public awareness of how and when to use the SIN appropriately and taken steps to better inform stakeholders about its appropriate use.
- 6.30 In 2003 and 2005 the Department conducted various focus groups and surveys to evaluate the public's attitude and awareness of the SIN and to assess communication products related to its use. In response to these findings, the Department began work to better inform the broader public about the appropriate use of the SIN.
- 6.31 In particular, Service Canada has developed a code of practice on the use of the SIN. The draft code sets out the roles and responsibilities of all SIN users, including individuals, employers, private sector organizations, federal and provincial government partners, and Service Canada and its employees. It includes mechanisms for monitoring and ensuring adherence to the code, as well as requirements for annual reporting on its implementation and effectiveness. Service Canada informed us that it planned to publicly launch the code before the end of March 2007. As shown in Exhibit 6.2 (page 12), progress in this area is rated as satisfactory.

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# Issuance of Social Insurance Numbers

- 6.32 The Employment Insurance Act and Regulations require that a SIN be issued only after determining an applicant's identity and citizenship status. Individuals apply for a SIN by submitting an application accompanied by proof-of-identity and proof-of-need documents. Service Canada reports that approximately 90 percent of applications are received in-person at more than 320 local service centres across the country, with the remaining 10 percent of applications received by mail. Service Canada received approximately 1.5 million SIN applications in the 2005–06 fiscal year.
- 6.33 In 2002 we reported significant deficiencies in the way new SINs and replacement cards were issued—both regular and 900-series SINs (those issued to applicants who are not Canadian citizens or permanent residents). In this audit we examined the actions taken by Human Resources and Social Development Canada to address these concerns. Specifically, we reviewed its changes to the policies and practices associated with establishing identity and proving need, its improvements to the controls of 900-series SINs, and the Department's redesign of the SIN issuance process.

#### The proof-of-identity program has been strengthened

- **6.34** In 2002 we observed significant weaknesses in the Department's practices to accurately identify all persons to whom it assigns a SIN. In particular we were concerned about the reliability of the documents used to establish identity, as it accepted many different documents, some with known deficiencies.
- 6.35 Changes to the proof-of-identity program. Immediately after our last audit, the Department (then Human Resources Development Canada) implemented key changes to the documents it accepts as proof of identity and proof of need when issuing a SIN. Most notably, it reduced the number of primary documents from 38 to 13, and an applicant must submit only original documents issued from provincial vital statistics authorities or Citizenship and Immigration Canada. For example, the Department no longer accepts baptismal certificates or certified photocopies; instead, an individual must provide an original birth certificate issued by a province. These changes to the proof-of-identity program reflect the importance of using foundation documents as a basis of establishing identity—a principle recognized in the policy framework of the Federal/Provincial/Territorial Council on Identity in Canada.
- **6.36** Validating documents with issuing authorities. While the Department has improved the standards for the proof-of-identity

Proof-of-identity program—The requirement for individuals applying for a SIN to provide documentation such as a birth certificate to confirm their unique identity. The concept, established in 1976, was intended to permit the unique verification of an individual's identity and status in Canada in order to prevent the multiple issuance to and use of SIN numbers by a single individual

program, challenges remain in its ability to validate foundation documents with the source authorities when issuing a SIN.

- 6.37 Citizenship and Immigration Canada is the source authority for some of the proof-of-identity documents required to obtain a SIN. The Department has had access to immigration data since 1996. In 2004 the Department (then Human Resources and Skills Development Canada) reported that obtaining electronic access to citizenship data was delayed pending a major systems upgrade by Citizenship and Immigration Canada, expected at that time to be complete in 2006. The Department informed us that it had begun discussions with Citizenship and Immigration Canada in August 2006 and that it expected to finalize an agreement by March 2007 to obtain access to citizenship data and improve its links to immigration data.
- 6.38 Provincial vital statistics agencies are the source authority for the other proof-of-identity documents required for a SIN. The Department has had real-time access to birth information in New Brunswick since 1998. It uses this information to validate the birth information applicants provide when applying for a new SIN or replacement card. Since 2004 the Department has been actively pursuing vital events information sharing agreements with provinces and territories. These agreements would allow the real-time exchange of data to validate information individuals provide at the time of a SIN application, as well as the development of integrated services, such as processing a SIN application and birth registration at the same time. The Department signed agreements with Ontario in 2005 and British Columbia in 2006. In June 2006 the Department reported to Parliament that it planned to have agreements in place with most provinces and territories within the next year. By the completion of our audit the Department had not yet established regular access to birth information with Ontario or British Columbia, but was working with the provinces to develop this capacity. Also, we were informed by Service Canada that an integrated SIN and birth registration service was available to residents of Ontario as of September 2006.
- 6.39 Satisfactory progress. In this audit we found that the Department has made satisfactory progress to improve its proof-of-identity program by strengthening the policies and practices associated with establishing identity and proving need (Exhibit 6.3). The Department has made reasonable efforts to improve its ability to validate documents it accepts as support for SIN applications with the authorities who issue them; nevertheless, it is essential that it continue to work diligently to establish this capacity as soon as possible.

Vital events information—Information held by provincial and territorial governments on key life events, such as births, deaths, marriages, or name changes

Exhibit 6.3 The SIN issuance process has improved

Auditor General's September 2002 Report, Chapter 1		
Recommendation	Progress	
Human Resources Development Canada should ensure that its policies and practices respect the intent of the <i>Employment Insurance Act</i> and Regulations, which require it to		
determine the identity and citizenship status of applicants for a Social Insurance Number; and	•	
obtain proof of the need for a Social Insurance Number from applicants who are not Canadian citizens or permanent residents. (paragraph 1.55)		
Human Resources Development Canada should reconsider its goals for the 900-series SIN and the associated risks. It should revise its policy and practices accordingly. (paragraph 1.56)	•	
Human Resources Development Canada should improve the integrity of its SIN application process. In particular, it should		
<ul> <li>assess the reliability of the identity and citizenship documents it accepts as support for applications and implement corrective action where necessary;</li> </ul>		
make reasonable efforts to develop a means of checking the validity of identity and citizenship documents with the authorities that issued them; and	•	
• ensure that staff have the training and tools to comply with the Employment Insurance Act and Regulations when they process applications for a Social Insurance Number. (paragraph 1.57)		

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

#### Controls over 900-series Social Insurance Numbers have improved

- **6.40** Service Canada also issues SINs to short-term visitors, refugee claimants, seasonal workers, and foreign students. These numbers begin with a nine to distinguish them from regular SINs and to indicate that the bearers require separate authorization to work in Canada because they are not Canadian citizens or permanent residents.
- 6.41 In our 2002 audit we observed poor controls over these 900-series SINs. In this audit we found that Service Canada now requires applicants to provide original documents, such as a work permit from Citizenship and Immigration Canada, in order to prove their need for a SIN. The Department also requested amendments to the Employment Insurance Act and Regulations to add an expiry date to 900-series SINs, which is tied to a person's authorization to stay in Canada. This

legislative change came into effect on 30 March 2003. Holders of 900series SINs at the time of the change had one year to complete a new SIN application and provide valid documentation to prove their identity and need. If individuals did not renew their SIN within the oneyear transition period, an expiry date of 3 April 2004 was automatically added to their SIN record. New applicants for 900-series SINs receive a SIN card bearing an expiry date. As shown in Exhibit 6.3, we rate the Department's progress in this area as satisfactory.

#### A redesign strengthens the Social Insurance Number issuance process

- 6.42 In 2002 we found that SINs were issued without proper control and that staff lacked adequate training, tools, and information. Some specific concerns included unclear roles and responsibilities, and inconsistent practices for confirming identity and eligibility for a SIN.
- Starting in 2004 the Department conducted a detailed review of the full process for issuing a SIN, identifying significant inconsistencies, duplications, and risk areas. As a result of this review it developed a new SIN application process to improve service to Canadians and strengthen the issuance process (Exhibit 6.4). Service Canada began implementation of the new issuance process in March 2006.
- 6.44 Since at the time of our examination, the new issuance process was being implemented, we did not audit its operation. Instead we reviewed its design to determine if the proposed changes would address our previous concerns. We reviewed the new process during our onsite visits and performed system walk-throughs to confirm our understanding of the manual and automated processes. Officials informed us that, as of November 2006, the new process was operational in all Service Canada Centres across Canada.
- 6.45 The new design. According to the design of the new process, service centre agents process an application by interviewing the applicant guided by an online application processing system that includes standardized searches of the Register and automated prompts to ensure consistency. Agents validate proof-of-identity and proof-of-need documents, determine eligibility for a SIN, update the Register, and issue the SIN while the applicant is physically present at the service centre with their original proof-of-identity and proof-of-need documentation. The agents identify and resolve anomalies in information immediately, sometimes with the assistance of on-site investigators. In contrast, under the previous system for issuing SINs, many of the validation processes were performed manually by agents located at the Department's National Services in Bathurst, New Brunswick, using the proof-of-

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#### Exhibit 6.4 The SIN issuance process has been redesigned

#### Service Canada Centre **Old Process New Process** Paper application Automated application Service Canada Centre agents Service Canada Centre agents · Determine eligibility Interview the applicant using a risk-based automated questionnaire and enter application information into the Register Review proof-of-identity documents · Determine eligibility • Record proof-of-identity reference numbers on the paper application Review and validate proof-of-identity documents with source data\* • Affix a certification stamp confirming the examination · Perform standardized searches of the Register • Send the paper application to National Services · Confirm information entered in the Register with the applicant Application approved Application rejected Social Insurance Number is · Errors and anomalies are generated by the Register and identified and resolved in-person issued to the applicant in one with the applicant, possibly with visit the aid of an on-site investigator · Investigations are conducted if necessary National Services, Bathurst, N.B. The Social Insurance Number card is Processing and enquiries agents mailed to the applicant · Perform manual searches of the Register · Validate identity information with source data\* · Enter application information into the Register Application approved Application rejected · Social Insurance Number is Applications with errors or anomalies are returned to the generated by the Register Service Canada Centre for follow-up with the applicant . Investigations are conducted if necessary The Social Insurance Number card is mailed to the applicant \* to the extent that these links have been established with source authorities

identity information that service centre agents recorded on the paper application at the time of their initial review. Discrepancies or errors in information were resolved by returning the application to the service centre for follow-up with the applicant. Exhibit 6.4 illustrates the redesign of the SIN issuance process.

- 6.46 Mandatory training. An important way in which the new approach can be expected to strengthen the process for issuing SINs is the requirement for all service centre agents to be trained and certified before they are granted access to the Register. This mandatory training incorporates the updated proof-of-identity program and involves formal classroom training, coaching, and evaluation and certification of skills. Officials indicated that as of November 2006, more than 1,300 individuals had been trained and certified.
- 6.47 Some new risks. The new issuance process poses some new risks, however. Limited separation of duties exists in the new system since agents at service centres now have control over key steps in the issuance process. Also, significantly more individuals now have access to the Register to update and change information—more than 1,300 individuals compared to a few dozen previously.
- 6.48 A robust quality assurance system is essential to appropriately manage these risks. As of August 2006 the Department had implemented the first step of its quality assurance system for the new issuance process—mandatory training and certification of agents. The Department informed us that the remaining steps, such as random quality reviews and error measurement, would be implemented by March 2007. Officials acknowledged the new risks associated with the redesigned issuance process and the delay between its implementation and the implementation of the remaining steps of its quality assurance system. They informed us they were developing interim measures, such as reviews of system user access and spot checks of new SIN applications, to control the risks until the quality assurance system is fully implemented. We are satisfied with the Department's actions to manage the risks during this transition period.
- 6.49 Satisfactory progress. We found that, if implemented as designed, the new approach with its enhanced training requirements and automated tools and processes can be expected to strengthen the controls over how SINs are issued. Coupled with the improvements made to the proof-of-identity program and controls over the 900-series SINs, we rate the progress to improve the SIN application process as satisfactory, as shown in Exhibit 6.3 (page 17).

#### The Social Insurance Register

**Data quality**—The degree of accuracy, completeness, and reliability of information.

- **6.50** The basic personal information that individuals who apply for a SIN provide is recorded in a database called the Social Insurance Register. The Register contains all SINs previously issued, as well as information on applicants, such as name, date of birth, and mother's maiden name. In the 2005–06 fiscal year, Service Canada spent about \$19 million on the Register's administration.
- **6.51** In 1998 and again in 2002 we reported that the Register's data quality was a concern. We recommended that the Department (then Human Resources Development Canada) set goals for the completeness and reliability of the Register and take the steps necessary to meet them. In 2002 we also observed that inactive SINs could be used as a first step to access benefits, such as Employment Insurance and Old Age Security, because federal programs that use SINs were not informed of those identified in the Register as inactive.
- **6.52** In this audit we expected the Department to have clearly defined goals for the accuracy, completeness, and reliability of the information in the Register; to have taken steps to improve the data quality; and to have mechanisms to systematically maintain and measure the quality of the data. Given the Department's use of the SIN and data within the Register to validate identity, we also expected that when doing so, it would use the relevant information in the Register, keep the information up to date, and take appropriate actions based on the risks posed.

#### Goals for data quality have not been established

- **6.53** In this audit, we found that although the Department has continued its efforts to improve the Register, it has not yet clearly defined acceptable levels of accuracy, completeness, and reliability for Register data.
- **6.54** In an effort to set goals for the quality of Register data and to establish an action plan to achieve these goals, the Department completed a study in early 2004. This baseline study included, among other things, an assessment of the accuracy, completeness, and reliability of certain fields in the Register. It recommended immediate next steps, such as
  - determining which of the Register's data fields are key to validating identity;
  - · establishing objectives for the accuracy of key fields; and
  - exploring ways to examine data accuracy levels, including validation with partners and accelerating the development of links with vital events information.

6.55 The Department conducted a second review in late 2004 to validate the findings of the baseline study and provide further analysis of the Register's data quality. This review reported that departmental initiatives underway to streamline the issuance process and obtain access to vital events information would contribute to improving the data quality but may take up to 18 months to fully implement. The review recommended that in the interim, the Department should take several actions, many of which echo the recommendations of the earlier baseline study. (See our overall assessment of progress to ensure data quality starting at paragraph 6.76.)

#### Efforts to improve the Register have continued

- 6.56 Since 2002 Human Resources and Social Development Canada has continued its efforts to improve the quality of Register data. Using the 2004 baseline study as a guide, the Department undertook cleanup efforts, many of which concentrated on areas identified in previous audits as indicators of potential weaknesses in the Register. For example, it has decreased the excess in the number of usable SINs over Canadian population estimates, as well as the number of SINs issued prior to 1976 without confirmation of identity.
- 6.57 The excess in the number of usable SINs over the population has decreased but needs monitoring. In 1998 and again in 2002 we observed discrepancies between the number of usable SINs in the Register and Statistics Canada's estimate of the Canadian population. Excess usable SINs in the Register are a concern because of the risk of
- 6.58 The Department has worked to better explain the excess and reduce it. The 2004 baseline study found that the excess SINs can largely be explained by out-of-date information (for example, unrecorded deaths) or information the Register does not capture (for example, emigration). We estimate that as of June 2006, the number of usable SINs exceeded the estimate of the Canadian population aged 30 years and older by about 2.9 million, a significant reduction from the 5 million excess reported in our 2002 audit.
- 6.59 The Department addressed the incomplete death information in the Register in several ways. For example, in 2005 it investigated SINs belonging to individuals over 100 years old, identifying a considerable number of SIN holders as deceased and removing these numbers from the usable SINs. Linkages with data from the Old Age Security and Canada Pension Plan programs have also assisted in maintaining up-

Usable SIN-A SIN that exists in the Social 900 series), cancelled, or belonging to a

**Dormant SIN**—A SIN that the Department has identified as higher risk due its lack of recent activity or use. Using information provided by the Canada Revenue Agency, the Department marks a SIN as dormant if it belongs to an individual 23 years or older who has not filed a tax return or for whom no income was reported in the last five years (for example, government issued benefits, interest bearing bank accounts, work income, investments, and tax returns).

A SIN remains dormant until it is used in an income-related activity or until an application for a new, replacement, or amended SIN is received and the SIN holder provides proof of identity and an acceptable explanation for the period of inactivity.

**Uncertified SIN**—A SIN issued without any requirement to provide proof-of-identity documentation. Prior to 1976, no proof-of-identity program existed.

to-date death information. Service Canada expects further improvements as it expands its access to vital events information.

- **6.60** The Department also marks SINs with extended inactivity as dormant. A SIN may be inactive for a variety of reasons including emigration, an unrecorded death, an unused multiple SIN, or a fictitious identity not in use. The dormant flag identifies the SIN as being at higher risk of fraud if it is subsequently used to access benefits.
- 6.61 Of the 2.9 million excess usable SINs in June 2006, 2.1 million were flagged as dormant. The Department excludes dormant SINs from the total number of usable SINs when reporting on the excess. Accordingly, as of June 2006, its estimate of the excess usable SINs is around 800,000. As we observed in our audit work and as the Department's own studies have noted, the dormant flag does not automatically render a SIN unusable; rather, it is an indication of risk associated with inactivity.
- **6.62** An excess in the number of usable SINs in the Register indicates a risk to data quality. Continued analysis and monitoring of the number of usable SINs in the Register compared to Canadian population estimates is therefore necessary. The Department has not adequately assessed the risks posed by the excess number of usable SINs, including those marked dormant and those that are not, since 2004.
- **6.63** The number of uncertified SINs in the Register continues to decrease. Prior to 1976 SINs were issued without requiring proof of identity. As of June 2006 the Register shows about 6.4 million of these uncertified SINs, a significant decrease from the 8 million reported in 2002. The number of uncertified SINs as of June 2006 represents about 20 percent of the usable SINs in the database. As was the case in 2002, the Department plans to validate additional SINs as it obtains access to provincial and territorial vital events information. (See our overall assessment of progress to ensure data quality starting at paragraph 6.76.)

#### Measuring the quality of Register data is limited

- 6.64 To properly manage the data quality, it is important to keep the information in the Register up to date and to systematically measure the accuracy, completeness, and reliability of the Register data.
- **6.65 Maintaining the data.** We expected the Register data to be up to date, validated against source information, and corrected when identified as either out of date or in error. We found that the

Department has some processes in place to maintain the data, but that opportunities for improvement exist.

- 6.66 Service Canada maintains the Register by undertaking various cleanup projects and by updating SIN information using secondary data sources. Examples of data transfer processes it uses to maintain some of the information include updating dormant information in the Register with data from the Canada Revenue Agency, and renewing the Register's death information with data from the Old Age Security and Canada Pension Plan programs. To help ensure the data continue to make sense and have not been corrupted, the Department uses regular system reports to identify, analyze, and correct errors during these updates.
- 6.67 Opportunities to improve the maintenance of the data exist, however. As noted in paragraphs 6.59 and 6.63, access to provincial vital events information would improve Service Canada's ability to validate Register data against source information.
- systematically measured, not only to maintain the current quality level, but also to demonstrate improvements. We found that since 2002, the Department has at times measured some components of the quality of the Register data, but that measurement of the accuracy, completeness, and reliability of the data has been unsystematic and limited in scope. An independent review, commissioned by Service Canada in spring 2006, is the most recent assessment. The review observed that the Department had not defined critical versus non-critical errors in the database. The review included some limited testing of the accuracy and completeness of the data within the Register and recommended that management consider further testing to more precisely estimate the potential level of error in the entire database.
- 6.69 Since its creation Service Canada has been developing a methodology to measure the Register's data quality. This work culminated with studies conducted in early 2006 that proposed a methodology for a systematic approach to the measurement of errors, the development of key performance indicators, and an ongoing quality management strategy. Officials confirmed that by March 2007, they expected the quality measurement and reporting system to be established, and reporting on key performance indicators to be available. (See our overall assessment of progress to ensure data quality starting at paragraph 6.76.)

#### Using the Register to validate identity is a good control, but can be improved

- 6.70 In 2002 we observed that dormant SINs could be used as a first step to access benefits, such as Employment Insurance and Old Age Security, because federal programs that use SINs were not informed of those identified as dormant. In this audit we examined how dormant SINs and other information in the Register are used to validate identity in three social programs the Department administers: the Canada Student Loan Program (CSLP), Old Age Security (OAS), and Employment Insurance (EI).
- 6.71 Along with basic personal information, such as name, date of birth, sex, and mother's maiden name, the Register contains risk indicators, known as flags or conditions (Exhibit 6.5). In most cases, SIN flags are an alert to an unusual situation and indicate an increased level of risk.
- 6.72 Validating identity is the first step in assessing eligibility for program benefits. In each of the three programs we reviewed, the Department compares Register data to certain information the applicant provides, such as name and date of birth. If the information matches within predetermined risk-based tolerances, the applicant is considered to have been accurately identified. If it does not, additional processes are needed to resolve the discrepancy and confirm the

Exhibit 6.5 Common risk flags or conditions within the Register

Flag or condition	Description of the risk
Deceased	This SIN should not be used. SIN holder has been reported as deceased.
Fraud	This SIN should not be used. A previous investigation has proven that this SIN was used for fraudulent purposes.
Cancelled	The SIN holder has been issued another SIN. The cancelled SIN should not be used; it is cross referenced to a usable one
Twin	This SIN holder is a twin or one of a multiple birth. There is a risk that the SIN may not be used by the correct person.
900 SIN Expired: DD/MM/YY	The SIN holder's authorization to stay in Canada expires on this date. With rare exceptions, this SIN should not be used past this time.
Dormant	This SIN has not been used for an extended period. It has a higher risk of fraud and the SIN holder's identity should be verified.

Source: Service Canada

applicant's identity. A mismatch in Register data and information the applicant has provided or the existence of a risk flag does not automatically make the SIN unusable, and the program must have manual processes in place to respond properly to these situations.

- **6.73** For the SIN validation processes and the use of risk flags to be effective, relevant information in the Register needs to be kept up to date and used as part of the identity validation process. Additionally, follow-up in the event of a discrepancy or a risk flag needs to be commensurate with the risk posed.
- 6.74 In this audit we observed differences in the way the SIN validation processes have been implemented, but that overall these processes help improve identity validation. We found, however, that use of the Register in this way could be improved. Specifically, we noted that some key information was not kept up to date and that differences in practices were not always supported by an appropriate analysis of the risks posed:
  - The dormant risk flag was not kept current. The Department has updated the dormant flags only every second year despite internal policies indicating that the dormant flag information needs to be updated annually to reflect the most current information on the use or activity of a SIN.
  - The OAS and CSLP programs do not use the dormant flag in validating identity. Departmental officials told us that the decisions not to use the flag for these programs were based on risk, but they were not able to provide the supporting analyses. This approach also differs from the Department's descriptions of the purpose and functioning of this flag.
  - In the event of a discrepancy in the identity validation process for EI, applicants may be asked only to return a signed copy of their application instead of providing additional identification documents. The Department was unable to provide a risk analysis supporting this practice.
  - A date of birth mismatch on a CSLP application will be passed without subsequent follow-up when it is due to an incomplete birth record in the Register that originated from the immigration database. Though these cases are rare, the decision not to require follow-up was not based on an analysis of the risks posed and is inconsistent with practices followed in the event of other types of birth date mismatches in the CSLP SIN validation process.

- Certain cases with high risk flags, such as a fraud flag, identified in the CSLP validation process were not being actively followed-up on. Although they are not passed for the purposes of issuing a loan, it is still important to know how and why these SINs are being used to apply for benefits. While these situations are likely infrequent, the Department was unable to provide the volume of these types of cases.
- Only one of the three programs we examined, the CSLP, had a
  formal process to facilitate the correction of information in the
  Register after resolving discrepancies in the course of a SIN
  validation.

(See our overall assessment of progress to ensure data quality starting at paragraph 6.76.)

**6.75** Recommendation. When using the Register to validate identity, Human Resources and Social Development Canada and Service Canada should ensure

- key Register information is up to date,
- key Register information is used, and
- their follow-up actions are commensurate with risk.

Human Resources and Social Development Canada's and Service Canada's response. The Department recognizes the importance of maintaining the integrity of key Register information and supports establishing efficient, effective, and consistent SIN validation processes. Since 2002 the Department has undertaken a number of initiatives to strengthen the integrity of key Register information, including introducing an expiry date on SINs issued to temporary workers to coincide with their authorized stay in Canada, and implementing agreements with Ontario and British Columbia to directly receive and validate birth and death information (representing 54 percent of the population).

To further ensure that key Register information is up to date, Service Canada is continuing its negotiations with other provinces and territories to implement similar agreements to receive and validate birth and death information. The Department is also continuing to ensure that due diligence is met with regards to the treatment of dormant flags.

Service Canada will undertake a study to confirm the use, usefulness, and relevance of the existing information, including risk flags, for programs that use the Register to validate identity. Options will be

assessed to address identified weaknesses and implement necessary corrective measures in SIN-related program areas.

Moreover, the Department will continue to conduct investigations and follow-up commensurate with identified risk for programs under its

#### Although heading in the right direction, progress to ensure Register quality is unsatisfactory

- 6.76 Our examination of the Social Insurance Register involved a number of areas related to data quality—setting goals, making improvements, measuring quality, and using the data to validate identity. The Department's work to improve the accuracy, completeness, and reliability of the data and to implement a quality management system for the Register is moving in the right direction. Nevertheless, Service Canada currently has no goals for data accuracy, completeness, and reliability, and we consider the lack of systematic and comprehensive measurement of the Register's data quality a significant risk given the importance of the SIN. The Department's use of Register data to validate identity is a good control that can be further improved. Based on the cleanup initiatives undertaken, the Register data may be more accurate, complete, and reliable than it was in 2002; but, without the systematic measurement of errors, Service Canada has limited assurance that its quality is adequate.
- 6.77 The quality of Register data is a long-standing issue. Our previous recommendations and those of the parliamentary committees emphasized the expectation that the Department will measure and report on progress in relation to specific goals and time frames. We first reported this issue in 1998 when we recommended the Department develop a comprehensive plan with appropriate measures and time frames to bring the reliability and completeness of the Register data to an appropriate level. The prevalence of identity theft and the associated risks and costs to individuals and other stakeholders make the integrity of the Register important not only for the Department, but for all programs that rely on the SIN. For these reasons, we rate progress in this area as unsatisfactory (Exhibit 6.6).

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Exhibit 6.6 Progress in ensuring data quality is unsatisfactory

Auditor General's September 2002 Report, Chapter 1		
Recommendation	Progress	
Human Resources Development Canada should set goals for the completeness and reliability of the Social Insurance Register and take the steps necessary to meet them. (paragraph 1.77)	0	

- Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

# **6.78 Recommendation.** Human Resources and Social Development Canada and Service Canada should

- set goals for the accuracy, completeness, and reliability of the data in the Social Insurance Register; and
- implement a comprehensive quality management program to systematically measure, maintain, and report on the quality of the data in the Register.

Human Resources and Social Development Canada's and Service Canada's response. The Department agrees that establishing goals is important. At the same time, performance targets must be based on sound analysis. Therefore, prior to establishing goals, Service Canada undertook a number of studies on the accuracy of key fields in the Register, the use of vital events information, and the preparation of methodologies to estimate benchmark levels of Register error.

Service Canada will complete its work currently under way on benchmark levels to define key performance indicators for the ongoing measurement of Register completeness, accuracy, and reliability. Based on these results, Service Canada will establish goals for Register data and develop a plan to measure and report on performance in the 2007–08 fiscal year.

#### Public reporting is inadequate

- 6.79 In 2002 we found that the Department's reporting on the Social Insurance Register could be improved. Following our audit both the Public Accounts Committee and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities made recommendations regarding their expectations for the frequency and content of the reporting (Appendix A).
- **6.80** Parliament asked for clear reporting. Specifically, the committees asked the Department for two types of information on its management of the SIN in order to monitor the extent and speed of activities:
  - results-based performance information, including defining expected results, targets, and reporting against those expectations; and
  - information on progress in developing and implementing improvements, including timelines for implementation and, where deadlines are missed, explanations and descriptions of corrective action.
- 6.81 The Department agreed to these recommendations. We therefore reviewed its reporting to Parliament on SIN-related activities. We expected to find results-based performance reporting, including clear performance expectations, targets, and reporting against those expectations, as well as information on improvement initiatives, with time frames and clear explanations of results that fell short of expectations.
- **6.82** Results-based performance reporting. At the time of the audit Service Canada had not yet developed performance expectations and targets to measure and report on the results of its SIN-related activities. It had therefore not reported on its SIN-related activities in this way.
- 6.83 Reporting progress on improvements. Since 2003 the Department has reported regularly on activities to improve the management of the SIN; however, some key information has not been fully reported. In October 2003 the Department issued a progress report on its SIN initiatives that included specific activities to achieve described objectives; results, both completed and in progress; planned next steps; and for the most part, timetables and milestones. Starting in the 2003–04 fiscal year the Department reported on the improvements to the management of the SIN in its departmental performance reports; however, some key information has not been included. In its 2003–04 Departmental Performance Report,

explanations for deadlines that had been missed were limited. In subsequent Departmental Performance Reports, progress on only a few initiatives was described, commitments were often open-ended, timeframes for achieving activities were not always clearly described, and progress was not updated when the initiatives were delayed or incomplete.

6.84 Good performance reporting is fundamental to effective governance and accountability to Parliament. In its February 2003 report the Standing Committee on Human Resources Development and the Status of Persons with Disabilities observed that it was difficult to assess the implementation and progress of the Department's SIN-related activities in the absence of deadlines for specific actions and reports on progress. Progress is rated as unsatisfactory (Exhibit 6.7).

Exhibit 6.7 Reporting on improvements to the Register is unsatisfactory

Auditor General's September 2002 Report, Chapter 1			
Recommendation	Progress		
Human Resources Development Canada should ensure that its reporting of improvements to the quality of the information in the Social Insurance Register is clear and unambiguous. (paragraph 1.78)	0		
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	the issue, an		
Unsatisfactory—Progress is unsatisfactory, given the significance and complex issue, and the time that has elapsed since the recommendation was made.	ity of the		

- **6.85** Recommendation. Human Resources and Social Development Canada should ensure that its next reports to Parliament on the management of the Social Insurance Number and improvements to the Register include
  - clear and concrete performance expectations,
  - time frames for achieving these expectations,
  - key results reported against these expectations, and
  - explanations for gaps and shortcomings in the results achieved.

Human Resources and Social Development Canada's response. The Department is fully committed to continuing improvement in the management of the Register and the SIN and will address the Auditor General's recommendations in future reports to Parliament, such as the Departmental Report on Plans and Priorities and the Departmental Performance Report, once goals have been established.

# Investigations related to the Social Insurance Number

6.86 In our 2002 audit we noted that the expanded use of the SIN both inside and outside the federal government had increased the potential for fraud. A fraudulently obtained SIN can be used to access federal and provincial social programs, to defraud banks, to misrepresent income to the Canada Revenue Agency, and to steal a real identity. New technologies have increased the opportunities to create fake or fraudulent SINs and SIN cards.

#### Steps have been taken to adopt a risk-based approach to investigations

- 6.87 In our 2002 audit we found that the Department (then Human Resources Development Canada) had not completed a risk-based analysis of its SIN-related activities. We were also concerned that investigations did not concentrate on high-risk areas.
- 6.88 Important steps to implement risk-based management have occurred. In 2003 the Department held workshops to identify and assess some risks associated with the SIN. In 2004 and 2005 it further articulated these risks and ways to manage them as it defined the Service Canada initiative and developed its three-year work plan and implementation strategy. For example, a risk identified in Service Canada's implementation strategy is that it had not built the foundations for program integrity. Mitigation plans included obtaining greater access to vital events information and developing enhanced risk analysis to identify and better target investigations. In late 2005 the Department amalgamated the risk management, integrity, and investigations functions for all Service Canada programs and services, including the SIN.
- **6.89** We found that the Department identifies SIN investigations in a variety of ways, many of which are based on risk:
  - The Department receives complaints or referrals from the public and partner organizations on potential abuse or reports of lost or stolen SINs.
  - Front-line staff use a risk-based approach to identify and refer suspicious or irregular applications to investigators prior to issuing the SIN. In all the sites we visited, the Department had successfully integrated this process into the front-line staff's responsibilities.
  - A risk flag or discrepancy in the information in the Register is identified when individuals apply for a SIN or other program benefits.

**Risk-based management**—A systematic approach to making program decisions and taking action by

- · identifying the risks;
- · assessing and ranking the risks;
- selecting and implementing strategies to reduce the risks; and
- monitoring and evaluating the risks and mitigation strategies, and adjusting them accordingly.

- **6.90** We also found that once identified, SIN investigations are no longer discretionary; procedures now require action for all SIN cases identified for investigation. Investigators with whom we spoke during our site visits confirmed these procedures.
- 6.91 A final step to ensure investigations concentrate on high risk is needed. A final and important step of risk-based management is adjusting to changing circumstances based on ongoing monitoring of identified risks and the strategies taken in response to them. The Department does not track information on the sources of SIN investigations or their results and it performs limited analysis of trends and patterns in the nature of investigations. For example, the Department has not performed a comprehensive review of investigations triggered by risk flags in the Register to determine if the flags are effective at identifying cases requiring investigations, as was recommended in the Department's own studies on risk flags. This type of analysis would allow the Department to strengthen its processes for identifying and investigating cases based on lessons learned so that investigation efforts concentrate on the highest risk areas.
- **6.92** Progress is satisfactory. Since 2002 the Department has taken important steps in adopting a more risk-based approach to investigating SIN-related fraud. Although work is still required to fully implement risk-based management for SIN investigations, we rate progress as satisfactory (Exhibit 6.8).

Exhibit 6.8 Investigation of SIN-related fraud has improved

Auditor General's September 2002 Report, Chapter 1		
Recommendation	Progress	
Human Resources Development Canada should adopt a more comprehensive risk-based approach to investigating SIN-related fraud. (paragraph 1.82)		
Human Resources Development Canada should ensure that investigators have the proper training and tools. (paragraph 1.85)		
Satisfactory—Progress is satisfactory, given the significance and complexity of the time that has elapsed since the recommendation was made.	the issue, ar	
Unsatisfactory—Progress is unsatisfactory, given the significance and complex	ity of the	

**6.93** Recommendation. Human Resources and Social Development Canada and Service Canada should implement a means to evaluate and monitor the causes and results of SIN investigations and use this information to ensure investigation efforts concentrate on high-risk areas.

Human Resources and Social Development Canada's and Service Canada's response. The Department is developing an enterprise-wide approach to risk management, and the SIN Application Review Program (SARP) is an integral part of this risk approach. The SARP is a front-end process, in which staff involved in taking SIN applications are required to assess the information presented and the client's demeanour. This is used to determine whether additional information is needed or whether the application should be referred to an investigator.

The Department plans to analyze and monitor the causes and results of SIN investigations, including the key factors related to the SARP, such as documentation used for the SIN application, and use these to target high-risk SIN investigations in the future.

#### Tools and training for investigators have improved

- 6.94 Since our last audit, the Department has developed and is now delivering an integrated course on SIN investigations. Although some investigators in the local offices we visited had not yet received this training, we noted that a key part of the course is identifying fraudulent documents and using the associated tools.
- 6.95 We also found that investigators have access to a variety of tools, including new sources of information, for example, risk alerts shared from partner organizations such as the Canada Border Services Agency. Investigators in the offices we visited indicated that one of the most useful tools was the guide containing pictures and descriptions of authentic documents. This reference guide was available in all the local sites we visited, though it was last updated only in 2003.
- 6.96 As shown in Exhibit 6.8, we found that the Department has made satisfactory progress in providing SIN investigators with more formal training and access to adequate tools. However, it needs to keep the information current.
- **6.97** Recommendation. Human Resources and Social Development Canada and Service Canada should ensure that investigators have access to current training and tools for identifying fraudulent documents and investigating SIN-related fraud.

Human Resources and Social Development Canada's and Service Canada's response. The Department has developed training and tools to assist investigators in identifying fraudulent documents and investigating SIN-related fraud. This material will be regularly updated to ensure it remains complete, accurate, and relevant in conducting investigations on SIN-related fraud.

# Conclusion

- 6.98 Overall, progress in addressing our 2002 audit observations and recommendations has been unsatisfactory. While satisfactory progress has been made in several areas, two important issues are not yet resolved. First, the policies that govern how federal departments may use the SIN are not clear. Second, Human Resources and Social Development Canada does not systematically measure the quality of information in the Social Insurance Register. Both are long-standing issues that we first raised in 1998. Although we found that the Department and the Treasury Board Secretariat have taken important steps to develop a better understanding of these two key issues and to define options for resolving them, we believe that by this time the government should have implemented solutions.
- 6.99 The use of the SIN by federal organizations is governed by provisions of various pieces of legislation, as well as elements of various policies and guidelines. As the Treasury Board Secretariat noted in its 2003 review of SIN use in the federal government, several elements of the policy and guidelines issued to departments are unclear and open to different interpretations. The Secretariat has still not issued updated policies and guidelines. In the meantime, this lack of clarity leads to inconsistent application of policy requirements, thereby increasing the risk of inappropriate use of the SIN.
- **6.100** Service Canada has made satisfactory progress in addressing deficiencies in many areas. For example, the development of the SIN code of practice, the redesign of the SIN issuance process, changes to proof-of-identity standards, and improvements to the identification and investigation of SIN-related fraud represent considerable work to strengthen the management of the SIN.
- **6.101** Service Canada has also made efforts to improve the quality of the data in the Register; however, it has not established goals for data quality, and its measurement of the accuracy, completeness, and reliability of the data is unsystematic and limited in scope. Accordingly, it has limited assurance that the quality of the information is adequate.

Service Canada informed us that it plans to address these issues with the quality management strategy currently under development.

6.102 Obtaining improved access to vital events information is an important part of Service Canada's plans to address several outstanding issues—such as validating proof-of-identity documents with source authorities, measuring and maintaining the Register's data quality, and further improving investigations. While Service Canada expects to have agreements in place with most provinces and territories by March 2007, these agreements represent only the first, albeit important, step. Service Canada's challenge will be to work with the provinces and territories to fully implement the various aspects of these agreements in a timely manner.

6.103 The growing incidence of identity theft, fraud, and security risks necessitates strong management of the Social Insurance Number including clear policy guidance on its use in the federal government that better reflects today's risks and challenges. Although heading in the right direction, Human Resources and Social Development Canada and the Treasury Board Secretariat need to guickly and successfully implement sustainable solutions to ensure that the SIN is appropriately used and adequately safeguarded.

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## **About the Audit**

#### **Objective**

The objective of the audit was to assess the progress Human Resources and Social Development Canada and the Treasury Board Secretariat have made in responding to observations and recommendations contained in the 2002 audit of the Integrity of the Social Insurance Number.

#### Scope and Approach

Our audit was designed to follow up on the progress made in addressing the 10 recommendations made in the 2002 audit. The observations and recommendations of this audit concerned the appropriate use of the SIN; the process for issuing new SINs and replacement cards; the accuracy, completeness, and reliability of the Social Insurance Register; and the investigation of SIN-related fraud. The 2002 audit was itself a follow-up of a previous audit report in 1998. Where relevant we considered the observations and concerns raised in the 1998 audit.

The departments included in our audit were

- Human Resources and Social Development Canada, including Service Canada; and
- the Treasury Board Secretariat.

We conducted audit work at the national headquarters of the Treasury Board Secretariat, of Human Resources and Social Development Canada. In addition, we visited the regional headquarters, two local service centres responsible for service delivery, and SIN operations in each of the following three regions: Ontario—Toronto; Québec—Montréal; Alberta—Edmonton. Finally, we reviewed operations and processes used to manage the Social Insurance Register at National Services in Bathurst, New Brunswick.

Our work involved interviews, document review, analysis of Register data, process and system walk-throughs, and testing of sample cases. In particular we examined the following:

- the steps taken by the Department and the Treasury Board Secretariat to support appropriate use of the SIN within the private sector and within the federal government;
- the changes the Department had implemented and was implementing to strengthen controls over the issuance of new SINs and replacement cards, both regular and the 900-series SINs;
- the actions the Department had taken to improve the accuracy, completeness, and reliability of Register data; to set goals for measuring and monitoring its quality; and to report on its SIN-related activities;
- how the Department uses the information in the Register to validate identity in three social programs it administers: Employment Insurance, Old Age Security, and Canada Student Loans; and
- the changes the Department made to adopt a more risk-based approach to investigating SIN-related fraud, including how it identifies cases requiring investigation, how it ensures that its investigative resources are concentrated in areas of highest risk, and the tools and training it provides to investigators.

#### Criteria

The following criteria guided our audit work:

- The SIN should be collected and used according to legislation and policy.
- The Treasury Board Secretariat should monitor department il compliance with its policy requirements
  on the use of the SIN and data matching.
- Human Resources and Social Development Canada should be aware of how the SIN is used and should encourage its proper use.
- Human Resources and Social Development Canada should make reasonable efforts to ensure that it provides new SINs and replacement cards only to eligible individuals.
- Human Resources and Social Development Canada should make reasonable efforts to ensure that the Social Insurance Register is accurate, complete, and reliable for authorized uses.
- Reporting on activities to improve the management of the SIN, including the quality of Register data, should be complete and accurate.
- Fraud detection and investigation efforts should be based on risk.

These criteria were based upon the *Employment Insurance* Act and Regulations; the *Privacy* Act; the Treasury Board's Management Accountability Framework and Integrated Risk Management Policy, as well as the Treasury Board's policies on Privacy and Data Protection and on data matching.

#### Audit work completed

Audit work for this chapter was substantially completed on 31 August 2006.

#### Audit team

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# Appendix A Recommendations of the House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities, and the Standing Committee on Public Accounts

Recommendations of the Standing Committee on Human Resources Development and the Status of Persons with Disabilities—February 2003

Report 2: Taking the necessary measures to enhance the integrity of the Social Insurance Number: A review of the Action Plan

#### I. Funding

1. The Committee recommends that the government ensure that adequate funding be made available through new or existing sources so as to ensure the successful implementation of all the elements of the Social Insurance Number Action Plan and any other measure that may be required to restore the integrity of the SIN and the Register.

#### II. Respecting the Legislation Underlying the SIN

- 2. The Committee recommends that:
- Human Resources Development Canada immediately require all new applicants for a SIN to provide, in addition to one of the currently accepted primary documents, one other document that contains a photograph of the applicant (e.g., passport, driver's license, etc.) or, if photo identification is not possible, at least two other identification documents;
- By 1 January 2004, Human Resources Development Canada determine which type of photo identification documents will be required to apply for a Social Insurance Number, including photographs accompanied by a guarantor's declaration like that required when applying for a Canadian Passport;
- Once the government has made a decision regarding photo identification documents, the government amend the Employment Insurance Regulations to list all acceptable identification documents and to require individuals to provide at least two original identity documents, including one photo identity document, when applying for a Social Insurance Number.

#### III. Appropriate Use of the SIN and Personal Information on Applicants

- 3. The Committee recommends that:
- Human Resources Development Canada reassess its plans for the 20Q3-2004 communication strategy to inform specific groups on the proper use of the SIN with a view to delivering this strategy to a larger public by using, for example, the national media as recommended in Chapter 1 of the 2002 Report of the Auditor General of Canada;
- The Treasury Board act quickly to revise its policy and guidelines if warranted by the Secretariat's findings regarding compliance of federal institutions with policies on the use of the SIN;
- One year after the complete implementation of the *Personal Information Protection and Electronics Document Act*, the government conduct a review to determine if specific legislation is required to curb the improper use of the SIN.

#### IV. Deadlines and Progress Reporting

- 4. The Committee recommends that:
- Human Resources Development Canada include in its Action Plan deadlines for achieving all of the actions associated with the 14 initiatives listed in the Plan;
- Human Resources Development Canada provide semi-annual progress reports to the Auditor General of Canada and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities outlining the status of all of the actions associated with the 14 initiatives in the Plan. In instances where deadlines are missed, an explanation and a description of corrective action to be taken should be provided.

#### Recommendations of the Standing Committee on Public Accounts—June 2003

Report 16 Human Resources Development Canada — The Integrity of the Social Insurance Number

#### Human Resources Development Canada Action Plan

- 1. That Human Resources Development Canada immediately prepare a new action plan that includes information on the total cost of implementing the plan, together with a cost breakdown for each individual initiative. That this new action plan be tabled in Parliament no later than 30 September 2003.
- 2. That Human Resources Development Canada immediately prepare a new action plan that includes a time frame for implementation together with benchmarks to measure the plan's progress. That this new action plan be tabled in Parliament no later than 30 September 2003.
- 3. That Human Resources Development Canada provide regular semi-annual reports on the status of its action plan, incorporating indicators that measure progress in implementing the elements of the plan and whether these elements are on time and on budget. That the Department provide the semi-annual reports to the Public Accounts Committee starting 30 September 2003.

#### Compliance with the Employment Insurance Act

- 4. That Human Resources Development Canada modify the SIN application process to ensure that it complies fully with the intent of the *Employment Insurance Act* and Regulations by requiring *at least* two separate and distinct source documents to verify proof of identity and citizenship of the SIN applicant.
- 5. That Human Resources Development Canada require the interdepartmental working group on the SIN application process to submit a copy of its final report containing its recommendations to the Public Accounts Committee by 30 September 2003.

#### Social Insurance Register

- 6. That Human Resources Development Canada, in collaboration with Statistics Canada, complete without further delay the baseline study of the Social Insurance Registry and table a summary report containing the conclusions of the study, together with a copy of the final action plan, to be tabled in Parliament and the Public Accounts Committee no later than 30 September 2003.
- 7. That Human Resources Development Canada seek to secure formal data exchange agreements with other federal departments and agencies, as well with provincial and territorial vital statistics agencies, in order to strengthen the completeness and reliability of the Social Insurance Register. That the Department provide to the Public Accounts Committee a status report on the progress of these agreements by 30 September 2003.

#### Performance Reporting to Parliament

- 8. That Human Resources Development Canada review its reporting systems, practices, and policies to ensure that its reports on plans and priorities contain clear objectives (planned results) for the Social Insurance Number Program, with activities related to those objectives, and establish performance targets. That the Department begin reporting such information under the new format for the fiscal year commencing 1 April 2004.
- 9. That Human Resources Development Canada review its monitoring systems, practices and policies to ensure that its departmental performance reports contain information on the Social Insurance Number Program, including program results achieved compared with performance expectations. That the Department begin reporting performance information under the new format for the current fiscal year ending 31 March 2004.

# Appendix B List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation

#### Response

#### Appropriate use of the Social Insurance Number

**6.28** The Treasury Board Secretariat should

- meet its commitment to update the policy framework governing the use of the SIN in the federal government by 31 March 2008, and
- ensure that the policy instruments governing the use of the SIN in the federal government close the gaps identified in its 2003 review. (6.14–6.27)

The Treasury Board Secretariat is committed to ensuring that the personal information of Canadians is protected in accordance with the provisions of the Privacy Act and the requirements of the Policy on Privacy and Data Protection, which governs use of the Social Insurance Number (SIN) and data matching by federal government institutions. As the Auditor General has noted, the Secretariat has already completed significant work on developing the proposed policy changes governing the use of the SIN and data matching. The Secretariat has completed a review of SIN and data matching practices across the federal government and prepared a comprehensive report in 2003. Extensive consultations have been undertaken with other federal institutions through a Secretariat-led Interdepartmental Committee and, as well, the views of the Office of the Privacy Commissioner have been sought on the proposed revisions.

The Secretariat will ensure that the Treasury Board policy requirements governing use of the SIN in the federal government are updated and clarified by 31 March 2008, to close the gaps identified in the 2003 Secretariat review.

#### The Social Insurance Register

**6.75** When using the Register to validate identity, Human Resources and Social Development Canada and Service Canada should ensure

- key Register information is up to date,
- key Register information is used, and
- their follow-up actions are commensurate with risk. (6.70–6.74)

The Department recognizes the importance of maintaining the integrity of key Register information and supports establishing efficient, effective, and consistent SIN validation processes. Since 2002 the Department has undertaken a number of initiatives to strengthen the integrity of key Register information, including introducing an expiry date on SINs issued to temporary workers to coincide with their authorized stay in Canada, and implementing agreements with Ontario and British Columbia to directly receive and validate birth and death information (representing 54 percent of the population).

Recommendation	Response
	To further ensure that key Register information is up to date, Service Canada is continuing its negotiations with other provinces and territories to implement similar agreements to receive and validate birth and death information. The Department is also continuing to ensure that due diligence is met with regards to the treatment of dormant flags.
	Service Canada will undertake a study to confirm the use, usefulness, and relevance of the existing information, including risk flags, for programs that use the Register to validate identit Options will be assessed to address identified weaknesses and implement necessary corrective measures in SIN-related

program areas.

6.78 Human Resources and Social Development Canada and Service Canada should

- set goals for the accuracy, completeness, and reliability of the data in the Social Insurance Register; and
- implement a comprehensive quality management program to systematically measure, maintain, and report on the quality of the data in (6.50 - 6.77)

The Department agrees that establishing goals is important. At the same time, performance targets must be based on sound analysis. Therefore, prior to establishing goals, Service Canada undertook a number of studies on the accuracy of key fields in the Register, the use of vital events information, and the preparation of methodologies to estimate benchmark levels of

investigations and follow-up commensurate with identified risk

Moreover, the Department will continue to conduct

for programs under its responsibility.

Service Canada will complete its work currently under way on benchmark levels to define key performance indicators for the ongoing measurement of Register completeness, accuracy, and reliability. Based on these results, Service Canada will establish goals for Register data and develop a plan to measure and report on performance in the 2007–08 fiscal year.

#### Recommendation

- 6.85 Human Resources and Social Development Canada should ensure that its next reports to Parliament on the management of the Social Insurance Number and improvements to the Register include
- clear and concrete performance expectations,
- time frames for achieving these expectations,
- key results reported against these expectations, and
- explanations for gaps and shortcomings in the results achieved. (6.79–6.84)

### Response

The Department is fully committed to continuing improvement in the management of the Register and the SIN and will address the Auditor General's recommendations in future reports to Parliament, such as the Departmental Report on Plans and Priorities and the Departmental Performance Report, once goals have been established.

#### Investigations related to the Social Insurance Number

6.93 Human Resources and Social Development Canada and Service Canada should implement a means to evaluate and monitor the causes and results of SIN investigations and use this information to ensure investigation efforts concentrate on high-risk areas. (6.86–6.92)

6.97 Human Resources and Social Development Canada and Service Canada should ensure that investigators have access to current training and tools for identifying fraudulent documents and investigating SIN-related fraud.

(6.94–6.96)

The Department is developing an enterprise-wide approach to risk management, and the SIN Application Review Program (SARP) is an integral part of this risk approach. The SARP is a front-end process, in which staff involved in taking SIN applications are required to assess the information presented and the client's demeanour. This is used to determine whether additional information is needed or whether the application should be referred to an investigator.

The Department plans to analyze and monitor the causes and results of SIN investigations, including the key factors related to the SARP, such as documentation used for the SIN application, and use these to target high-risk SIN investigations in the future.

The Department has developed training and tools to assist investigators in identifying fraudulent documents and investigating SIN-related fraud. This material will be regularly updated to ensure it remains complete, accurate, and relevant in conducting investigations on SIN-related fraud.



# Report of the Auditor General of Canada to the House of Commons—February 2007

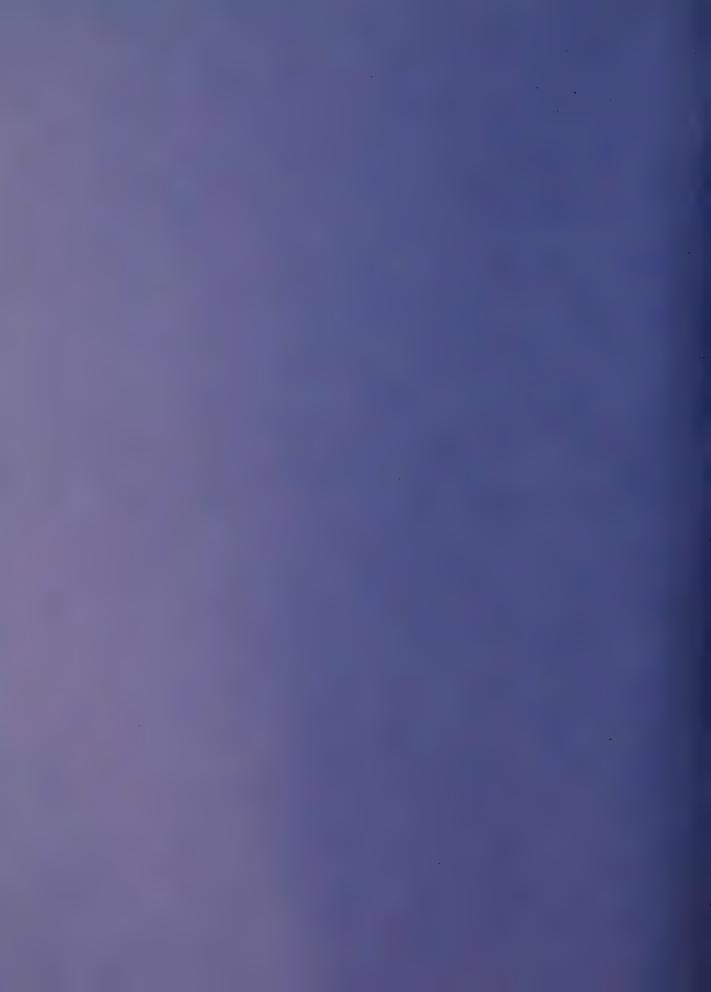
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A Message from the Auditor General of Canada







2007



A Status Report
of the
Auditor General of Canada
to the House of Commons

**FEBRUARY** 

Chapter 7
International Taxation—
Canada Revenue Agency



Office of the Auditor General of Canada



# 2007



A Status Report of the Auditor General of Canada to the House of Commons

**FEBRUARY** 

Chapter 7
International Taxation—
Canada Revenue Agency



The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

International Taxation
Canada Revenue Agency

All of the audit work in this chapter was conducted in accordance with the standards for ass Capacitas, historia, and contain a New received Windowski in this they standards and practices of other disciplines.	urance engagements set by the minimum requirement for mo audits

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# International Taxation Canada Revenue Agency

# **Main Points**

#### What we examined

We examined the Canada Revenue Agency's progress in addressing the significant recommendations we made in our 2001 and 2002 audits of non-resident taxation and taxation of international transactions of Canadian residents. In 2001 we reported that the Agency lacked an effective approach to assessing risk in its compliance work on non-resident tax files. Further, we found that the Agency did not have electronic data or data-matching systems for non-residents that were comparable with those used for detecting non-compliance by Canadian residents. We also said it was important that the Agency continue pursuing cases of aggressive tax planning and abuse of tax treaties.

In 2002 we reported that the Agency needed to improve its ability to assess the risks associated with taxing the international transactions of Canadian residents. We noted serious problems in the level of audit expertise in key tax services offices that handled the complex international tax audits of large corporations.

In this follow-up audit we looked at how the Agency currently identifies, plans, and staffs both non-resident compliance activities and international audits across the country.

# Why it's important

A growing number of Canadian individuals, trusts, and corporations are undertaking transactions with entities in foreign jurisdictions, in many cases with related parties. This could result in diverting tax away from Canada. The Agency estimates that over 16,000 Canadian corporate taxpayers now report some type of foreign transaction with related parties. The Agency estimates the value of these transactions at over \$1.5 trillion in 2005.

Canada's tax treaties with other countries reduce the amount of tax that must be paid by non-residents on certain types of income earned in Canada. With the growing globalization of the workforce and international investment, it is important that the Agency be able to ensure that the correct amounts of tax are withheld and that

non-residents file returns if required and pay the taxes they owe. Last year over \$4.9 billion in taxes was paid by non-residents.

#### What we found

- Overall, the Agency has made satisfactory progress in implementing our recommendations. It has not fully implemented some of our recommendations, however, because they concern complex issues that take a long time to resolve or they require legislative changes that have not been made.
- The Agency has taken action to clarify administrative policies, to properly record both the time spent on international audits and the results of those audits, and to verify the payment of tax on capital gains by emigrants. It also continues to be vigilant in recognizing the tax risk associated with aggressive international tax planning and possible treaty abuse. With the additional resources it received in the February 2005 federal Budget, the Agency is developing its research capacity to identify new international tax planning schemes and has directed more resources to auditing international tax avoidance.
- The Agency has undertaken some good initiatives in developing risk assessment techniques and tools for planning audits of international tax issues. It has made satisfactory progress in implementing most elements of the risk assessment approach we recommended in 2002.
- The Agency has not developed any new initiatives to deal with the low level of international tax audit experience, which continues in some of the Tax Services Offices with the highest-risk files. A lack of expertise could result in an inconsistent international audit approach and coverage across the country, and a loss of tax.
- The Agency has not made satisfactory progress in implementing electronic data capture and matching of non-resident tax data which would improve both service to non-residents and non-resident tax compliance activities.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed response follows each recommendation throughout the chapter.

## Introduction

- 7.1 The Canadian taxation rules that cover international transactions can be divided into two broad areas—the rules for Canadian-source income for non-residents and the rules for international transactions of Canadian residents.
- 7.2 The Canada Revenue Agency's (formerly the Canada Customs and Revenue Agency) non-resident tax administration activities include
  - processing non-resident tax returns;
  - providing waivers of Canadian income tax on income paid to non-residents, under conditions that include tax treaty provisions;
  - providing certificates of disposition to non-residents who are disposing of certain property;
  - auditing those who pay non-residents to ensure that the correct amount of tax has been withheld on various types of payments; and
  - taking action when non-residents fail to file a required tax return in Canada.
- 7.3 The Agency's administration of the international taxation rules for Canadian residents' worldwide income centres on audits by international tax auditors in tax services offices (TSOs) across the country. If an audit of international transactions determines that the taxpayer's taxable income or tax liability needs to be adjusted, the Agency will reassess the taxes accordingly.
- 7.4 The TSO international auditors are supported by the Agency's headquarters in Ottawa. At its headquarters, the Agency develops and refines tax administration policies and systems to comply with the legislation and international tax treaties. It also gives TSOs guidance on administrative policy matters and technical assistance on international tax issues.

#### What we found in 2001 and 2002

- 7.5 In Chapter 7 of our December 2001 Report, we commented on the Agency's activities involving non-residents who owe income tax in Canada. We found that
  - there were gaps in enforcement; for example, capital gains were not adequately verified for emigrants leaving Canada, and action

was not consistently taken against non-residents with large Canadian-source incomes who were required to file tax returns and pay all taxes owing;

- the Agency did not use its non-resident tax data effectively to identify non-compliance with tax withholding, reporting, and filing obligations; and
- the electronic capture of non-resident tax data was lagging behind the electronic capture of domestic data.
- 7.6 As a result of our 2001 audit, the Public Accounts Committee requested a hearing, which was held in March 2002. In June 2002, the Committee issued a report with recommendations to enhance agency reporting of non-resident activities and specifically requested a response to their report. The Government sent an overview response in October 2002 and followed up with a detailed response in January 2003.
- 7.7 In Chapter 4 of our December 2002 Report, we reported on the Agency's administration of the rules for taxing Canadian residents' international transactions. We reviewed the Agency's international tax risk assessment and international audits, which addressed compliance with the rules for transfer pricing, foreign affiliates, and Foreign Accrual Property Income (FAPI), particularly the compliance of Canada's largest corporations.

**7.8** In 2002, we again focused on the role of tax risk assessment. We found deficiencies in the

- identification of tax risks in international transactions,
- selection of corporate files subject to an audit of international transactions,
- planning of audits of international transactions of large corporations, and
- integrity of the data in the foreign reporting database.
- 7.9 We were concerned about the lack of international audit expertise in key Canadian TSOs and the lack of adequate technical support for international auditors. Economists were not involved early enough in the audit of transfer pricing issues. Formal requirements for taxpayers to provide information and requests for foreign-source information from foreign jurisdictions (using related tax treaties) were not used enough to ensure the timely completion of audits. Auditors did not have enough information on industry sectors to properly

Transfer price — The price at which services tangible property and intangible property are traded across internal, na burders between related parties.

Foreign affiliate — A non-resident corporation in which a Canadian taxpayer or a Canadian taxpayer and related persons lowns 10 percent or more of the shares.

Foreign Accrual Property Income (FAPI) Certain types of passive income 'for example interest on investments, that are earned by a controlled foreign affiniate understand the global business practices of different industries and the international tax implications of those practices.

- **7.10** We were also concerned about the quality of the information that the Agency collected on the time that various audit staff spent on international audits and the results of audits of international transactions.
- 7.11 Our audits of the non-resident tax administration and international tax administration focused on the activities of the International Tax Directorate at the Agency's headquarters, where the functional responsibility resided for both programs, and on the non-resident and international tax operations in the TSOs.
- 7.12 In the 2001–02 fiscal year, the Directorate had a Non-resident Operations Division, an International Tax Operations Division, and an International Tax Strategy Division. These divisions were responsible for guidance on audits, waivers, and risk assessments. Non-resident tax returns were assessed at the International Tax Services Office (ITSO). ITSO also provided information services to non-resident taxpayers and those who made payments to non-residents.

#### Important changes since 2002

- 7.13 Organizational changes. In April 2005, the Agency launched an internal review which resulted in a significant reorganization of its headquarters' non-resident and international tax administration programs and a restructuring of the Compliance Programs Branch. The new structure was announced in January 2006 and finalized in September 2006.
- 7.14 When it restructured the Compliance Programs Branch, the Agency combined its International Tax Audit activities with Tax Avoidance and Large Business Audit activities to form the new International and Large Business Directorate. This new Directorate includes
  - the International Tax Division, which has 60 staff members; and
  - the Competent Authority Services Division, which is responsible for international exchange of taxpayer information, for advance pricing agreements, and for inter-jurisdictional negotiations under Canada's tax treaties.
- 7.15 The Agency also combined its headquarters' responsibility for the audits of non-resident taxes with income tax audits of small- and medium-size corporations and with GST audits to form the Small and

Medium Enterprises Directorate. The processing of non-resident tax returns, and the follow-up with non-residents who do not file tax returns when required to do so, is now the responsibility of the Agency branches that process domestic tax returns and handle domestic non-filers. In total there are 50 headquarters staff members in non-resident operations.

- The risk assessment and compliance research activities for international tax and non-resident tax were combined with those of other compliance programs in the Research, Risk, and Business Management Directorate of the Compliance Programs Branch. A separate Compliance Strategy Directorate was also created in the Branch.
- The restructuring has not yet affected how audit operations are organized in the TSOs. As of 31 March 2006, there were 320 international auditors and researchers and 210 non-resident auditors and program officers in TSOs across the country. Amalgamating the international, tax avoidance, and large business audit programs at the headquarters level gives the Agency the opportunity and the flexibility to redesign audit operations and to redeploy auditors to these three programs in the TSOs.
- 7.18 Changes to funding. In the 2005 federal Budget, the Agency was given \$30 million a year to address Aggressive International Tax Planning. The Agency uses these funds to research schemes used to avoid paying tax in Canada and to increase the number of international auditors and tax avoidance auditors in TSOs across Canada.
- 7.19 Legislative change. In the 2004 federal Budget, the government introduced a change to the Income Tax Act. The intent behind this change was to make it clear that the Act's general anti-avoidance rule applies to Canada's income tax treaties, and it could be used to deny a tax benefit under a tax treaty if "abusive tax avoidance" has occurred. The amendment was retroactive to 1988 and came into effect in 2005.
- In addition, the following legislative changes occurred:
  - In December 2002 and in February 2004, Finance Canada released draft legislation that proposed amendments to the FAPI and foreign affiliate rules.
  - In 1999, amendments to the foreign investment entity and non-resident trust rules were initiated; in June 2000, August 2001, October 2002, October 2003, and July 2005, draft legislation was released. In November 2006, a Ways and Means motion was

tabled to introduce an Act implementing these rules, and the related Bill C-33 received its first reading in the House of Commons.

#### Focus of the audit

- The objective of our audit was to assess the Canada Revenue Agency's progress in responding to our 2001 and 2002 chapters on Non-residents Subject to Canadian Income Tax and on Taxing International Transactions of Canadian Residents.
- 7.22 More details on the audit objective, scope, approach, and criteria are in About the Audit at the end of this chapter.

# Observations and Recommendations

### The Agency's role in tax administration

- 7.23 Overall, the Canada Revenue Agency has made satisfactory progress in implementing our recommendations. However, it is important to note that some of our recommendations have not been fully implemented—some because they were more complex than others and required more effort and others because they require legislative changes that have not been made. We considered these factors when we made our overall conclusion.
- 7.24 The Agency is not solely responsible for maintaining international tax compliance in Canada. For example, the Tax Litigation Services at Justice Canada is responsible for litigating abusive international tax avoidance schemes.
- 7.25 Finance Canada is responsible for initiating changes to the tax legislation and negotiating Canada's tax treaties that protect Canada's right to tax international transactions.
- 7.26 The Agency's principal responsibilities for maintaining international tax compliance include
  - devising tools or studies to identify possible areas of non-compliance with international tax rules;
  - carrying out audits to determine the correct amount of tax to be paid, often using the transfer pricing or foreign affiliate rules;
  - advising Finance Canada if the current legislation may result in abusive tax avoidance; and

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- providing information to taxpayers on international tax compliance and advance rulings on specific international transactions.
- 7.27 International norms and conventions are also important for defining international tax compliance. For example, the Organisation for Economic Co-operation and Development (OECD) has produced a set of guidelines that most tax administrations use to verify transfer prices.
- 7.28 In addition, bilateral tax treaties allocate the taxing rights between Canada and another jurisdiction so taxpayers do not have their incomes taxed twice. They also provide mechanisms for exchanging taxpayer information and settling transfer pricing differences. Under the Canada–US tax treaty, the Competent Authority Services of both countries review disputed audit results that are related to transfer pricing issues and try to negotiate an agreement.
- 7.29 The Agency has become increasingly concerned about the tax risks associated with international transactions. Since 2004, aggressive tax planning, which includes international tax compliance, has been one of the Agency's top four compliance priorities. Furthermore, the number of corporations who report having foreign affiliates and the value of the investment in and the flow of business between these affiliates continue to grow. In 2005, over 16,000 corporations indicated that they had undertaken a transaction with a foreign affiliate; in 2004, over 72,000 individuals indicated that they had property (as defined in the *Income Tax Act*) worth over \$100,000 in a foreign jurisdiction.
- 7.30 The Agency's concern about non-compliance with international tax rules appears to be justified by the overall international audit results. Last year, the Agency's total international audit reassessments were \$941 million, compared to \$778 million reported in 2001. Additional tax assessed on international transactions by large corporations was \$729 million—compared to \$300 million reported in 2001—which represented 33 percent of the value of all reassessments in large corporate audits.

## Risk assessment

Most elements of international tax risk assessment and audit identification have improved

7.31 Our 2002 recommendation for strengthening the Canada Revenue Agency's ability to assess the international tax risk was broken down into five elements, identifying the different levels where risk assessment needed to be strengthened.

- 7.32 The Agency has made satisfactory progress in addressing four of the five elements related to risk assessment; the main progress was made in file selection and workload development in the tax services offices (TSOs) (Exhibit 7.1).
- 7.33 The Agency developed an electronic tool called the Compliance Measurement Profiling and Assessment System (COMPASS) that is being used to screen for audit issues in small- and medium-sized business files.

Exhibit 7.1 Progress in addressing our 2002 recommendations

Auditor General's December 2002 Report, Chapter 4			
Recommendation	Progress		
The Canada Customs and Revenue Agency's ability to assess the international tax risk should be strengthened by (paragraph 4.43	3)		
<ul> <li>improving the information and analysis used to assess the overall tax risk from international transactions and types of taxpayers to better determine international audit program guidelines.</li> </ul>	0		
<ul> <li>developing a risk assessment model to plan the audit of international issues of large corporations.</li> </ul>	•		
<ul> <li>evaluating the international tax risk in all large files that will be audited in a given year before developing the workload of the international auditors.</li> </ul>			
using tools to screen for international issues to select small and medium companies for audit.	•		
<ul> <li>implementing better controls over the integrity of data in the foreign reporting data base.</li> </ul>	•		
Satisfactory—Progress is satisfactory, given the significance and complex the time that has elapsed since the recommendation was made.	kity of the issue		
Unsatisfactory—Progress is unsatisfactory, given the significance and co			

issue, and the time that has elapsed since the recommendation was made.

- 7.34 In one of the TSOs we visited, COMPASS was being used to screen files for international tax risks, by accessing and analyzing the information that was supplied by taxpayers and was stored in the foreign reporting database. This file screening allowed potentially non-compliant small- and medium-sized corporate files to be referred directly to an international auditor, even if there was no indication that there were any domestic tax issues that needed to be reviewed.
- **7.35** COMPASS can also be used to assess risks in a broader range of files. In one of the TSOs we visited, COMPASS has been used to assess the level of international transactions in all TSO files. As the Agency improves its electronic methods for screening information, its assessment of international tax risk for corporations of all sizes, and the resulting audits, could become more efficient.
- 7.36 Since our audit in 2002, the number of referrals of international audit issues from domestic auditors to international auditors of small-and medium-size corporations has increased by 15 percent. This increase suggests that domestic auditors have become more aware of international tax issues and international tax risks.
- 7.37 In addition, the Agency has undertaken a project that focuses on wealthy Canadian taxpayers who are associated with domestic and foreign corporations and trusts. The Agency did an in-depth review of taxpayers that paid less than \$100,000 in federal tax and then selected several for audit. Based on the audit results to date, the Agency is continuing its efforts to identify significant international non-compliance in transactions between wealthy individuals and their foreign corporations and trusts.
- 7.38 We found that the Agency has also made satisfactory progress in developing risk assessment tools and audit planning guidance for international audits of large corporations. Auditors now have checklists and other planning tools to help them determine whether the corporation may be non-compliant and to begin transfer pricing and foreign affiliate audits. The development of these tools is often the result of initiative shown by experienced international auditors in the TSOs.
- **7.39** We also found that the international auditors in the TSOs we visited had improved the way they documented their audit planning for the large corporate audit files.
- 7.40 According to the contemporaneous documentation provision of the *Income Tax Act*, which has been in effect since 1998, when an auditor requests the documentation that supports the transfer price

used by the taxpayer, the taxpayer is required to produce this information within three months. We did not assess the timeliness or quality of the information provided by the taxpayers. However, we did note that the audit planning checklists included a requirement to make such a request, as called for in the 2004 directive the Agency issued to its international auditors.

7.41 The Agency has reviewed and improved the controls for maintaining the integrity of the data in the database that contains the foreign reporting information that taxpayers submit annually. This foreign reporting database is now frequently used in the TSOs to identify files for audit.

## Strategic risk assessment needs to be improved

- 7.42 The Agency's progress in improving the information and analysis used for the assessment of overall international tax risk by transaction type or taxpayer type has not been satisfactory (Exhibit 7.1).
- 7.43 In 2002, we observed that the guidelines on the allocation of international audit resources to audit files, on the number of audits that should be completed, and on the average number of hours each audit should take, were not developed with an in-depth understanding of the types of international non-compliance issues that are likely to be found in various types of taxpayer files.
- 7.44 Since 2002, the program guidelines have changed—the time budgeted for an international audit of a large corporation has increased significantly, and audit results are recorded more accurately. However, the Agency still does not have enough information to properly identify and assess emerging international tax compliance issues.
- 7.45 Most of the risk assessment data that the Agency uses comes from its foreign reporting database, the schedules attached to corporate tax returns, and the documentation required for transfer pricing. In addition, the Agency now uses publicly available information on international transactions from various security commissions and on international operations in corporations' annual reports.
- 7.46 Other tax administrations have access to more strategic taxpayer information than the Agency to do high-level strategic assessment of international tax risks. For example, in the United States, the Internal Revenue Service (IRS) has voluntary discussions with corporate taxpayers before they file their tax returns. This pre-filing initiative gives the IRS an early view of the evolving international operations of

multi-national corporate taxpayers and of the changes to international business practice.

- 7.47 The Australian Taxation Office has access, for audit purposes, to all of the information on large international cash flows collected by the Australian Transaction Reports and Analysis Centre. However, because of the Canadian government's privacy concerns, the Canada Revenue Agency does not have similar access to the information that the Financial Transactions and Reports Analysis Centre (FINTRAC) collects. FINTRAC's legislation only allows it to disclose designated information to the Agency if FINTRAC determines that in addition to money laundering or terrorist financing, the information suggests possible tax evasion.
- 7.48 In the United States, corporate taxpayers are required to report much more broadly on their transactions with foreign affiliates. Under the US tax laws, if a single foreign person owns at least 25 percent of a US corporation, the corporation must disclose who its owners are and report all of its commercial transactions with its foreign affiliates.
- 7.49 The United States also has 20 "exchange of information" agreements with countries with which it does not have formal tax treaties. These agreements expand the IRS' information, by giving it access to taxpayer information held in those countries. All of these additional sources of information allow the revenue authority to better assess the evolving tax risk from international transactions and may have a positive impact on compliance.
- 7.50 Recommendation. The Canada Revenue Agency should seek access to broader information on current international business practices of industry groups and on specific taxpayer transactions when it can demonstrate that this access would improve the identification and assessment of the emerging international tax risks or improve compliance with international tax rules.

The Agency's response. The Agency agrees that access to additional information would further enhance its ability to identify and assess emerging international tax compliance issues and has taken steps to increase its risk assessment capacity. The Agency will continue to explore avenues and opportunities to increase its access to information, including working with other tax administrations to combat global tax compliance risks.

#### Tax havens and tax treaties

#### Non-resident trusts have been reassessed

7.51 The Agency has made satisfactory progress in addressing our 2001 recommendation on tax treaties (Exhibit 7.2). In our 2001 audit, we noted that Canadian tax revenue could be lost if non-residents and Canadian residents use Canadian tax treaties inappropriately. We gave the example of the series of transactions that transferred property, mostly shares of privately held Canadian corporations, first to a spousal trust in Canada and then to a trust in Barbados. Taxpayers were planning to use the Canada-Barbados tax treaty to avoid paying capital gains tax in Canada when the property was eventually sold. There is no capital gains tax in Barbados.

Exhibit 7.2 Progress in addressing our 2001 recommendations

Auditor General's 2001 Report, Chapter 7	Auditor General's 2001 Report, Chapter 7		
Recommendation	Progress		
The Canada Customs and Revenue Agency should continue to be vigilant in ensuring that tax treaties are not used inappropriately reduce Canadian tax and, if necessary, should seek legislative or treaty changes to protect Canada's tax base. (paragraph 7.91)	to		
Satisfactory—Progress is satisfactory, given the significance and cor the time that has elapsed since the recommendation was made.	nplexity of the issue, and		
Unsatisfactory—Progress is unsatisfactory, given the significance are	' '		

7.52 By 2005, the Agency had identified 72 trusts—with capital gains of over \$600 million—that were created to avoid Canadian tax, and it reassessed them. The Agency's Appeals Branch upheld the reassessments. Some taxpayers have settled with the Agency and unwound the trusts; others are appealing to the Tax Court. The tax treaty with Barbados has not been amended.

## The Agency has a new aggressive international tax planning initiative

7.53 Aggressive International Tax Planning (AITP) is a recent Agency initiative to identify and respond to international transactions that may be designed to avoid paying income tax in Canada. In the February 2005 federal Budget, the Agency received an additional \$30 million per year, which was to be used to respond to the growing risk of international tax avoidance, in particular, the use of tax havens. The Agency split the resources equally between international tax audit and tax avoidance audit.

- 7.54 Most of the resources have been used to increase audit coverage in these areas. Specifically, the Agency has added 140 international and avoidance auditors to TSOs across Canada. The Agency also deployed 39 experienced auditors to do research studies in 11 of the larger TSOs, designated as "centres of expertise." Their research involves
  - · reviewing emerging international tax schemes,
  - · developing new risk assessment models, and
  - recommending necessary legislative or treaty changes.
- 7.55 This research initiative has been in existence for just over a year, and over 50 research projects have been identified. It is too early to say what impact this initiative will have on future audits or legislative changes.
- 7.56 The Joint International Tax Shelter Information Centre (JITSIC), which was formed in April 2004, is a significant new international development that is helping to identify potential tax treaty abuse. Under bilateral tax treaties, the United States, Canada, Australia, and the United Kingdom now have permanent representatives who share taxpayer and transaction information at the JITSIC in Washington. These representatives can use the information to determine if transactions in one jurisdiction resulted in abusive tax avoidance in another.
- 7.57 The JITSIC initiative demonstrates how information sharing among treaty partners can be used to identify potentially abusive tax avoidance. On 3 August 2006, the Agency and the IRS issued their first joint press release, in which they
  - · commented on the work of the JITSIC,
  - informed taxpayers of a tax shelter arrangement about which they had been exchanging information, and
  - warned taxpayers against participating in the tax shelter.

The information from this press release also appeared on the newly constructed Taxpayer Alert section of the Agency's web page.

# International auditor expertise and support

## International auditor expertise in the Toronto offices has not improved

7.58 In our 2002 audit, we expressed concern about the lack of adequately trained and experienced international auditors to undertake the complex audits of the international transactions of the largest corporations that involve transfer pricing and foreign affiliate

issues. Our specific concern was that the audit approach and coverage across the country might be inconsistent, because of the relative inexperience of the international auditors in the four TSOs in the greater Toronto area (GTA). At that time, over one third of the international auditors in two of the GTA offices had less than one year of experience.

- **7.59** In 2002, we also pointed out that 40 percent of the large corporations that file foreign information returns reside in the GTA. We believed this indicated that significant international tax risk existed in these TSOs, and we observed that the Agency needed to look for more timely and effective ways to complete those audits.
- **7.60** In 2006, we found that the situation had not changed significantly (Exhibit 7.3). We still observed a lack of adequate international audit experience in some of the GTA offices, and we continue to be concerned that this may result in an inconsistent international audit approach and coverage in large corporate audits.
- 7.61 In July 2006, two of the GTA offices indicated that more than 40 percent of the international auditors responsible for large corporate audits had less than two years of international audit experience. In addition, although they have previous audit experience, four of the ten international audit team leaders in these offices had less than one year of international team leader experience. And yet, these offices were responsible for the international audits of almost 30 percent of Canada's large corporations with international transactions.
- 7.62 International tax non-compliance, measured by tax audit recoveries, continues to be a significant audit issue in large corporations. In the last four years, about 30 percent of the large corporate reassessments across the country have come from audits of international tax issues. We noted a wide range in the value of international reassessments across TSOs with a similar size international staff. We also found that during this same period, only 25 percent of these international audit recoveries have come from the GTA offices where more than 40 percent of the large corporations that indicate non-arm's length international activity file their tax returns.
- **7.63** After four years, we have seen little progress in this area. As a result, tax recoveries may be lost in Toronto. In addition, the wide range of audit results across TSOs may indicate an inconsistent approach and coverage in international audits of large corporations across the country.

Exhibit 7.3	Progress	n addressing	our 2002	recommendations
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Auditor General's December 2002 Report, Chapter 4			
Recommendation	Progress		
The International Tax Directorate and the tax services offices should seek ways to improve the international audit program's human resources capability at a faster rate and explore ways to ensure that complex international audits are completed by experienced international auditors. (paragraph 4.50)			
The Canada Customs and Revenue Agency should strengthen aspects of its management and support of international audits by (paragraph 4.60)			
<ul> <li>formalizing requirements and requests to produce information related to offshore transactions.</li> </ul>			
<ul> <li>involving economists earlier in the audit process and having them work in closer collaboration with the international auditors.</li> </ul>	•		
<ul> <li>providing international auditors with better information on global sector-specific business issues.</li> </ul>			
The Canada Customs and Revenue Agency should gather better information about the time needed to actually complete audits of the international transactions of large corporations and the result of those audits. (paragraph 4.67)	•		
Satisfactory Progress is satisfactory, given the significance and complete time that has elapsed since the recommendation was made.	exity of the issue, an		
Unsatisfactory—Progress is unsatisfactory, given the significance and clissue, and the time that has elapsed since the recommendation was m			

- 7.64 The Agency has not adopted any new initiatives—as we recommended in 2002—to ensure that complex international audits in the GTA offices are completed by staff members who have enough experience to ensure consistency in audit approach and coverage. One way to deal with this problem is to assign the particularly complex GTA audits to more experienced international auditors from other TSOs.
- 7.65 Recommendation. The Agency should develop appropriate strategies to ensure that the international audit approach to, and the coverage for, large corporate taxpayers, relative to tax risk, is consistent across the country.

The Agency's response. The Agency agrees with the importance of

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Programs Branch made in January 2006 that have improved the Branch's overall flexibility in using resources, the Agency is analyzing how to best address the Auditor General's concerns as well as considering other options to further strengthen its international audit expertise.

## Audit staff need expertise specific to industry sectors

- **7.66** The Agency has not made satisfactory progress in addressing our 2002 recommendation that it give international auditors better information on global business issues specific to industry sectors (Exhibit 7.3).
- 7.67 The Agency employs economists to help auditors with transfer pricing audits. Since 2002, it has increased the number of economists to 16. International auditors are satisfied with the service the economists provide. However, the economists who are involved in the transfer pricing audits, most having only a few years experience, are not experts in specific industry sectors. The Agency also employs industry specialists, although few of them are involved in international audits.
- **7.68** With few exceptions, neither the Agency's international auditors nor the large corporate auditors are specialists in particular industry sectors. Each TSO is responsible for auditing all corporate taxpayers filing tax returns in its area and is only responsible for audits of those taxpayers.
- **7.69** Because specific industries are concentrated in certain TSOs, the Agency does have some international audit specialization in the financial services and oil and gas sectors in those TSOs. However, large corporate taxpayers in other industry sectors are spread out across the country, and the Agency has no specialized auditors to deal with their international audit issues.
- 7.70 Specialized audit teams that are responsible for audits of specific industry sectors across the country would make audits more efficient, improve the support for audit results, and assure taxpayers that their particular area of international business practice is well understood.

## Use of provisions for requesting taxpayer information has not improved

7.71 Canada's tax treaties give the Agency the power to request taxpayer information from foreign jurisdictions. In 2002, we found that these provisions were not being used effectively. We also found that the Agency was not routinely exercising its legislated power to formally

require taxpayers to produce the foreign-source information necessary to complete international audits. Both of these powers are to be used only when taxpayers have not provided the information voluntarily, after receiving repeated requests from the Agency.

7.72 The Agency is still not routinely using these provisions in situations where taxpayers failed to provide the information it requested. In the 2004–05 fiscal year, the Agency only used the treaty provisions to request information from foreign governments 135 times, and, on average, it took over 400 days to receive this information. This is similar to what we found in our 2002 report. In 2004, the Agency—out of the 800 international audits underway or completed that year—only issued eight requirements to taxpayers to produce foreign information.

## Non-resident operations

## Electronic non-resident services have not yet been provided

- 7.73 In 2001, the Agency identified a number of improvements it could make to the non-resident electronic services. Progress in making some of these improvements has been unsatisfactory (Exhibit 7.4). We were particularly concerned when we compared Canadian non-resident services with those in other jurisdictions. Both the Internal Revenue Service, in the United States, and the Australian Taxation Office offer electronic filing of tax returns, electronic account adjustments, and an electronic quick response mechanism to non-residents. In Canada, residents have had access to electronic filing since 1993, but non-residents must still submit paper tax returns. The initiative to introduce electronic filing for non-residents began more than five years ago but has not progressed since then.
- 7.74 A key obstacle to processing non-resident information (tax returns, waiver requests, and account adjustments) electronically is the fact that not every non-resident that does business with the Agency has a unique identifier. Although the Agency has been issuing tax numbers to non-residents since 1999, it is not yet mandatory for non-residents to obtain these numbers and share them with those from whom they receive payments.
- 7.75 A recent Agency study estimated that over 80 percent of the income slips issued to non-residents, for business income earned in Canada, were issued without a unique identifier. The same study found the information that the payer included on these slips, such as country of residency and withholding rate, was often incorrect.

Exhibit 7.4 Progress in addressing our 2001 recommendations

Recommendation	Progress
The Canada Customs and Revenue Agency should implement its plans to improve assistance to non-resident taxpayers and their Canadian income payers in meeting their tax obligations. (paragraph 7.25)	0
The Canada Customs and Revenue Agency should collect performance data for all non-resident activities in a way that enables it to identify tax risk and produce a comprehensive risk assessment for non-resident taxation. (paragraph 7.42)	0
The Canada Customs and Revenue Agency should introduce a screening mechanism to identify taxpayers' compliance with the obligation to report capital gains when they become non-residents. (paragraph 7.47)	•
The Canada Customs and Revenue Agency should ensure that all certificates of disposition involving complex transactions are reviewed by appropriately trained staff for current and future tax compliance. (paragraph 7.61)	•
The Canada Customs and Revenue Agency should increase its efforts to bring electronic capture and matching programs for non-resident tax data up to the standards of domestic tax data, and streamline simple enforcement activities between the International Tax Services Office and the tax services offices. (paragraph 7.68)	0
To achieve consistency, the International Tax Directorate should finalize guidance on outstanding administrative policies and monitor their application by the tax services offices. (paragraph 7.74)	•
The Canada Customs and Revenue Agency should consistently take action when it identifies non-residents who have not complied with tax filing requirements. (paragraph 7.79)	•

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

7.76 For domestic tax administration, each Canadian taxpayer has a Business Identification Number (BN), for business taxpayers, or a Social Insurance Number (SIN), for individuals, and the Agency uses these numbers to match taxpayer information electronically. Until using similar unique identifiers is mandatory for non-residents, processing taxes and identifying non-filers will be inefficient and often ineffective. The United States has had mandatory tax identification numbers for non-resident individuals, corporations, and trusts since 1996.

#### Several non-resident operations have improved

- 7.71 The Agency has made good progress in implementing some of the recommendations in our 2001 audit of non-resident tax administration (Exhibit 7.4). It completed a project that assessed whether emigrating taxpayers were complying with their obligation to pay the capital gains taxes on publicly traded shares when they leave Canada. The Agency has found significant non-compliance and intends to expand the scope of the assessment to include other types of property.
- 7.78 In addition, the Agency has recognized the importance of having experts review complex transactions of non-residents that result in the disposition of Canadian property. In all the offices we visited, we observed that trained international auditors were reviewing the transactions, and an on-line manual for reviewing the disposition of property has been developed.
- 7.79 Since 2001, the Agency has given the tax services office (TSO) staff clearer administrative guidance on non-resident policies and has issued new manuals and communication bulletins to TSO auditors and taxpayers. In addition, the legislative changes made in 2001 for the taxation of non-resident actors and the Agency's film services unit activities respond to our 2001 recommendation about high-income non-residents who failed to file tax returns.

## Non-resident risk assessment and data matching is still deficient

- 7.80 The Agency has not finished developing its electronic data system for non-resident and emigrant dispositions. After more than five years in development, this system is still not fully implemented in all TSOs across the country.
- 7.81 The Agency has had some inconclusive results in its compliance and risk assessment studies of the investment, pension, and business income paid to non-residents who are subject to Canadian tax. These results were inconclusive, partly because the data quality on the information slips that the payers provided was poor, and partly because the Agency found it difficult to match various pieces of information to the same taxpayer. The mandatory issuance and use of a non-resident tax number would permit the Agency to match electronic data, improve compliance and risk assessments, and streamline enforcement activities.
- **7.82** The Agency staff who perform non-resident processing and compliance activities, many non-residents, and those who make

payments to non-residents would all benefit from the use of a non-resident tax number. Last year there were

- 36,000 payments to non-residents for services performed or employment in Canada;
- 21,000 requests for waivers of withholding tax on business income, under treaty provisions or based on projected net income;
- 36,000 requests for a disposition certificate upon the sale of Canadian property;
- more than 1.9 million payments to non-residents of passive income from Canada, such as pension or interest payments;
- 82,000 requests for reductions of the taxes on pension or rental income; and
- more than 422,000 non-resident tax returns filed.
- **7.83** The Agency maintained more than 90,000 accounts for those who made payments to non-residents and withheld tax, and more than \$4.2 billion was deposited to these accounts.
- **7.84 Recommendation.** The Agency should seek legislative changes to make it mandatory for all non-resident individuals, corporations, and trusts, subject to Canadian tax administration, to have and use tax numbers.

Agency's response. The Agency agrees that the use of mandatory tax numbers would assist it in strengthening certain aspects of its compliance programs. The Agency will review this recommendation as well as other administrative and legislative options to determine the most appropriate approach to addressing the concerns identified by the Auditor General.

## Conclusion

- **7.85** The Canada Revenue Agency faces even greater challenges in the administration of international tax rules than it does for domestic tax administration. These challenges include obtaining taxpayer information, working with foreign governments, and coping with the more complex underlying laws.
- 7.86 The recommendations we made in 2001 and 2002 addressed the Agency's ability to meet these challenges. Overall, the Agency has made satisfactory progress in responding to those recommendations. The Agency took important steps to improve its ability to identify

potential non-compliance with the tax rules that apply to Canadian taxpayers' international transactions. These steps included improving its risk assessment tools and introducing initiatives to detect aggressive international tax planning. The Agency still requires access to better information to improve the effectiveness of its strategic risk assessment activities for international transactions. It must ensure that the audit coverage of and the approach to international audits of large corporate taxpayers is consistent across the country.

7.87 The Agency has made satisfactory progress in addressing some of our recommendations for non-resident tax administration. However, mandatory identification numbers for non-residents are needed, before all the recommended improvements can be made to non-resident services and compliance activities.

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## **About the Audit**

## **Objectives**

The objective of the audit was to assess the Canada Revenue Agency's progress in implementing the recommendations made in Chapter 7 of our 2001 Report, on non-residents subject to Canadian income tax, and in Chapter 4 of our December 2002 Report, on taxing international transactions of Canadian residents.

## Scope, approach, and criteria

We assessed the Agency's progress on the recommendations from the 2001 and 2002 audits, in particular the recommendations related to risk assessment and human resource capacity, since these are key to the Agency's ability to effectively assess compliance.

Our audit work was conducted in the International Tax Directorate at the Agency's headquarters and the International Tax Services Office in Ottawa and in the tax services offices in Halifax, Toronto West, Toronto Centre, Toronto North, Calgary, and Vancouver. We reviewed the Agency's annual reports on the status of its implementation of the recommendations, conducted interviews with the Agency's staff, and reviewed relevant documentation.

We expect the Agency would

- assess the tax risks associated with non-resident taxation;
- assess Canadian taxpayer compliance with the Canadian income tax rules for international transactions;
- have the capacity to satisfactorily carry out its non-resident and international compliance activities;
- provide timely, functional guidance and assistance to non-resident and international operations in the tax services offices; and
- measure and report on the results of non-resident and international compliance activities.

## **Audit work completed**

Audit work for this chapter was substantially completed on 15 August 2006.

#### **Audit team**

Assistant Auditor General: John Rossetti

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For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

## Appendix List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

## Recommendation Response Risk Assessment The Agency agrees that access to additional information would 7.50 The Canada Revenue Agency further enhance its ability to identify and assess emerging information on current international international tax compliance issues and has taken steps to increase its risk assessment capacity. The Agency will continue and on specific taxpayer transactions to explore avenues and opportunities to increase its access to when it can demonstrate that this information, including working with other tax administrations to access would improve the identification combat global tax compliance risks. international tax risks or improve compliance with international tax rules. (7.42 - 7.49)

#### International auditor expertise and support

7.65 The Agency should develop appropriate strategies to ensure that the international audit approach to, and the coverage for, large corporate taxpayers, relative to tax risk, is consistent across the country. (7.58–7.64)

The Agency agrees with the importance of ensuring that the highest risk international audit issues for large corporate taxpayers are identified and audited consistently across the country. Building on organizational changes that the Compliance Programs Branch made in January 2006 that have improved the Branch's overall flexibility in using resources, the Agency is analyzing how to best address the Auditor General's concerns as well as considering other options to further strengthen its international audit expertise.

#### Non-resident operations

7.84 The Agency should seek legislative changes to make it mandatory for all non-resident individuals, corporations, and trusts, subject to Canadian tax administration, to have and use tax numbers. (7.73–7.83)

The Agency agrees that the use of mandatory tax numbers would assist it in strengthening certain aspects of its compliance programs. The Agency will review this recommendation as well as other administrative and legislative options to determine the most appropriate approach to addressing the concerns identified by the Auditor General.

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